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1898

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-:- THE HISTORY OF JAPANESE PAPER CURRENCY. -:-

(1868-1890)

by

-:- MASAYOSHI TAKAKI, S. B. -:-

A Dissertation presented to the
Board of University Studies
of the Johns Hopkins University
for the degree of
Doctor of Philosophy.

1895.

-:- HISTORY OF JAPANESE PAPER CURRENCY .-:-

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the Board of University Studies of the Johns Hopkins

for the degree of Doctor of Philosophy in

1895 - ~~1895~~

REMARK. ✓ :-

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(2) Transactions of the Asiatic Society of Japan, Vol. XX,
supplement, part I, p. 108.

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mainly in the large centres of trade. Since the period of

-:- THE HISTORY OF JAPANESE PAPER CURRENCY. -:- ✓

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-:- INTRODUCTION. -:-

According to historical records, the first paper money of Japan was issued as early as 1335 (Kembun Period). But particulars of the issue and characteristics of the paper ~~money~~^{notes} are entirely unknown to us. It is generally believed, however, that this paper was not used in any considerable amounts. (1) Even the Tokugawa Government ~~itself~~^{never} once during its long regime put into circulation a Government issue. ~~it was~~ Only at the close of its power, in 1867 ^{and} that it sanctioned a paper money for the newly opened port of Hyogo; but this was withdrawn as soon as ~~it was~~ authorized. Hence, the paper currency issued by the Government for the purpose of universal circulation throughout the Empire, began with the Restoration in 1868. (2) Thus, governmental cur-

(1) Transactions of the Asiatic Society of Japan, Vol. XX, supplement, part I, p. 1-8.

(2) Issues of paper money by private persons were, of course, made in the shape of bank-notes, but they had a circulation mainly in the large centres of trade. Since the period of



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gency being a new institution and its establishment being in the midst of political confusion throughout the country, there were indescribable difficulties in the way of carrying through this financial measure. But notwithstanding these difficulties, the financiers and statesmen of the time, by their integrity and honesty were able to establish a solid basis for the currency system and to complete the liquidation of all the inconvertible paper notes before two decades had elapsed. To-day Japan, so far as her financial system is concerned, stands among the ~~best~~ ^{most advanced} regulated nations of the world.⁴ (1) It is the purpose of this monograph to trace the genesis, development and management of the Japanese paper currency, from the Restoration of the Imperial power in 1868 down to the establishment of Constitutional government in 1890.

Kwabun (1601-1673), there existed another paper money issued by the Daimyos, but they were circulated only within the feudal territorial limits. See Count Matsukata's Report of 1890.

4 (1) See the address of Mr. K. Watanabe, the Japanese Minister of State for Finance, at the Second Session of the Imperial Diet.

-:- CHAPTER I. -:-

-:- GENESIS OF ^{paper} PAPER CURRENCY. -:-

Before tracing the development of the paper currency system of Japan, in order that one may thoroughly understand the forces which compelled the government to issue the paper money, it is very necessary ~~first~~ to consider briefly, the condition of the country at the time when the Imperial power was restored and the present government was organized.

In the 12th month of Kieo (1868) the Imperial proclamation was made that His Majesty, the Japanese Emperor, dismissed Yoshinobu Tokugawa, at the request of the latter, from the office of Shogun. ^{5✓} (1) Thus, the Shogun ostensibly returned the ruling power which had been exercised by his family for more than two hundred and fifty years, to the hands of the Emperor who ~~was~~ ^{became} now to be the sole ruler of the country. But this surrender of the Shogun was merely nominal, for although the sovereign power was formerly ^{all} transferred,

^{5✓} (1) Translation of the proclamation is given in American Executive Document, Diplomatic Correspondence, 1868-1869, p. 623.

yet the actual power over the dominion and subjects remained in the hands of the feudal nobles who still continued to exercise governmental powers within their own territorial limit. As it was impossible, however, for the Emperor to "fulfil his high office" unless he possessed ~~the~~ dominion and subjects, he sent an envoy to the Ex-Shogun and asked him to return such part of his revenue as had been allotted to him only as Shogun. (1) This proposition was refused by Yoshinobu who, however, signified his readiness to hand over to the Emperor a yearly income of a thousand ⁷² Kokus (2) and to continue the former allowance of one hundred and fifty thousand Kokus to the Imperial Court. "He further declared that he himself was ready to submit to the orders of the Emperor, but the Daimyos, Aiz and Kuwana, resisted his wishes; lest there should be some violence committed by them, he would go to Osaka, dismiss them into their respective provinces and then return to Kyoto to await there the direction of the Imperial Court" (3)

6. (1) Mei-Ji-Shi-Yo, Vol. I., p. 15.

7. (2) One Koku was about \$5.00 in value.

8. (3) American Executive Diplomatic Correspondence, 1868-69, p. 662.

But a few days after this, when the envoy was sent to invite him to return to Kyoto as promised, they ~~were~~ ^{surprised} surprised to learn that Aizawa and Kuwana, forming the van guard of Yoshinobu's army, had marched towards Kyoto, and that this advanced section had attacked the Imperial guard at Toba and Fushimi. But the rebels were repulsed and retreated to Osaka and thence to the North Eastern provinces by sea. This treacherous conduct of the Ex-Shogun caused the Emperor to declare war against Tokugawa and his adherents, and appointed Prince Arisugawa as the Commander-in-Chief of the suppressing forces. Thus, the civil war which revolutionized Japan was begun.

In this din of war and political confusion, the new government began its administration. ^{Murasaki} How critical a period this was for the nation cannot be described. Old institutions were rooted up, but the new institutions were not yet fully established to take the place of the old. The Imperial forces had gained a victory in the single battle of Toba and Fushimi, yet almost all the Daimyos stationed east of the Hakone Mountains supported the Ex-Shogun, ^{and} resisted the Imperial Army. The attitude of the Daimyos, who were in a state ^{of} alienation and inubordination, was yet a matter of uncertainty. Men's minds were unsettled and public business was



in a state of confusion. "The great work of restoring the ancient constitution", says Mr. Okubo in his famous memorial, "is only half accomplished; nay it may be said that it has only commenced". (1) And ^{although} every step of the reform undertaken and every measure adopted demanded constant outlay by the government, ^{yet} it had no means ^{were available, namely} with which to meet this enormous expenditure, ^{most keenly} How far the financial embarrassment of the government extended, we can ^{be} seen from the letter of the ^{Ministry} Bureau for ~~Treasury~~ to the ^a Commander-in-Chief of the Imperial army, who asked for a ^{further supply} reinforcement of provisions. It says; "Although we acknowledge that the military funds are, at this crisis of the nation, of the most pressing need, yet as has been said before, the Treasury Bureau is, at present, an empty bureau;-- we have not means sufficient to meet even the ordinary expenses of the Bureau--" (2) Mr. Mioka (now Viscount Yuri) describing the financial condition of the government at that time ~~also~~ says; "A large army was in the field engaged in suppressing the rebellion but the government had no supplies to send them; every ^{way} ~~car~~ brought in wounded officers and

9 ✓ (1) Mr. Okubo's Memorial, dated Jan. 25, 1868.
10 ✓ (2) Mei-Ji-Sei-Shi, Vol. I, p. 109.

dying soldiers, but no means to take care of them existed; messenger after messenger from the ^{the} Military head-quarters came with urgent pleas for re-enforcements, but the government had to send them back discouraged. The ~~great~~ embarrassment of the government was beyond description." (1). ^{11 ✓}

Examining the statistics of ~~the~~ government expenditure, we find that the extraordinary disbursement for that year alone reached the enormous figure of 25,000,000 yen, while the whole of the government revenue ~~for that year~~ from ordinary sources, amounted to no more than 3,000,000 yen. ^{12 ✓} (2)

¹ Now the question which demanded of the government ^{should the government} an immediate solution was "How ~~to~~ meet this enormous expenditure with an empty Treasury?" Many suggestive plans were

^{an opportunity} made, but most of them were theoretical and not applicable to the situation. As the first step towards the solution of the problem, the government issued an Imperial decree three days after the declaration of the war, that "all the Tokugawa domains should hereafter be under the direct control of the Imperial power". ^{13 ✓} (3) This was theoretically a great

(1) Quoted in Mei-Ji-Sei-San, Vol. I., p. 114.

(2) A General review of Financial Policy during Thirteen years, p. 9.

(3) Mei-Ji-Sei-San, Vol. I., p. 109.

advance towards its ^{acquiring} realization of the sovereign power of the government, but economically this did not afford any pecuniary aid towards the formation of a new government, since it was practically impossible for ^{the} an administration to confiscate all the domains without putting itself in danger of creating many riots ~~and~~ at a time when the empire was in ~~an~~ seemingly unsettled condition. Even had it been possible to ^{collect} obtain all the arrears, the whole would not have sufficed to meet even the ordinary expenses ~~now~~. As has been said before, the territorial nobility still continued to exercise the power of government ^{making it impossible for} rendering the government ~~unable~~ to obtain from them more than an annual contribution of about 700,000 yen for military purposes. The government ^{was obliged} ~~needed~~ therefore to take another step; namely to contract a domestic loan. On May 5, 1868, the Emperor issued a decree ^{stating:} "The government has much to spend and ^{is claiming little} ~~none~~ to receive for its Treasury-----at the time of each national crisis, it is the duty of the subjects of the Emperor to serve the country according to their ability and occupation; those who have boldness and courage, by joining the Imperial Army; those who have means, by contributing to ~~wards~~ the military fund. Thus each and every one can have

opportunity of fulfilling the duty which has been assigned
to him. ^{14 ✓} ~~11~~ Again in the official letter of the "Treas-
ury Bureau", to Mr. Matsukata (now Count), the Governor of
Mida Prefecture, ^{his state} ~~we read~~ that the government has been suf-
fering from financial difficulties and can not meet the
pressing need of the Imperial Army in the field. We sincerely
wish, therefore, that your good office, bearing this em-
barrassment in mind, would exercise ^{its} your best effort ~~and~~
~~success~~ in raising a loan immediately in your Prefecture" ^{15 ✓} (2)

But this measure was intended ^{that} ~~to be~~ only temporary relief,
ⁱⁿ ~~to~~ meeting an urgent emergency, ~~and~~ ^{owing} to the lack of con-
fidence in the new government together with the fact that
the Tokugawa government had employed a similar measure be-
fore, the people were indifferent towards ~~the subscription~~
~~of~~ the loan. ^{in the} Especially at ~~the time of such an~~ unsettled
condition of affairs, many rich merchants hid their wealth
and tried to escape from the subscription. Although this
action seemed ~~to~~ to have been unpatriotic ^{and} even disloyal to the
country, yet considering the condition of ~~the~~ time, it was

^{14 ✓} (1) Mei-Ji-Sei-Shi, Vol. I., p. 119.
^{15 ✓} (2) Mei-Ji-Sei-Shi, Vol. I., p. 109.

not at all surprising. Count Okuma, in his "Reminiscence", gives ~~an~~ an instance illustrating how hard it was for the officials to raise money for ~~the~~ government use. He says, "When the government wanted to pay for an American vessel, the 'Stonewall', which had been purchased by the Old Regime, I was appointed as the government commissioner for the settlement of the matter. But as there was no money in the treasury for this purpose, I went to Osaka ^{to secure} and ^{with the aid of} by means of violent threats on the part of the local authority, I could raise only 250,000 ¹⁶ yen" (1). This was the ^{actual} ~~result~~ of the measure in the wealthy city of Osaka. We can judge of the difficulty of raising the remainder of the desired loan in the other cities and provinces. There was an instance in which the government was forced to borrow 100,000 yen for ten days at one and half per cent interest. Thus the amount raised in every possible way, was ~~not~~ insufficient to meet the constantly increasing outlay. "The loans obtained", says Count Okuma, "together with the money handed over by the Shogunate and the fines or gifts of the Daimyos

16 (1) Count Okuma's "Reminiscence" No. 123, (Number as it was published in the Ho-Chi-Shim-bun).

amounted barely to 5,380,000 yen or a total, from ordinary and extraordinary sources, of about 9,040,000 ¹⁷yen." (1) And Since the expenditures reached 25,000,000 yen, there was left a deficit of 15,900,000 yen. The financial difficulty of the government had reached its climax, and the government was ^{permanently} ~~compelled~~ to ^{adopt} ~~resort~~ to more permanent measures for the salvation of the country from its financial peril, namely ^{to resort to} the issue of a paper currency.

As has been ^{stated} ~~said~~ in the foregoing pages, the financial condition of the government ^{had} ~~became~~ so critical that the effect of ^{such} ~~a moment's~~ delay would have been serious. At this time ^{the} a plan of issuing paper money was proposed as a means of saving the government from its financial peril. The originator of the scheme was Mr. Hatsuro Mioka ¹⁸(2), a retainer of Yetsuzen and a councillor of state. He was known as an able financier and had won the confidence of such ~~senior~~ ^{elder} statesmen as Messrs. Kido and Okubo. The plan was similar to the "Land Bank" system of England and the "Paper Bank" system of Rhode Island. It was in brief to issue paper notes, 48,973,000 yen upon the cultivated land of the Empire for

17 (1) Count Okuma's "Review", p. 9.

18 (2) Now Viscount Turi, a member of the House of Peers.

security, to be circulated for thirteen years.

As to the ^{subject} of the issue, Mr. Mioka said, "For some time I had ^{strong} conviction that if we would issue a paper money to be circulated throughout the Empire, thus expanding out the medium of exchange, we could lay a sure basis for the commercial and industrial prosperity of the country. -----For, although prior to the issue of paper money in my province (Yechizen), we suffered from poverty and hard times, yet ^{from the time} since the new medium of exchange (paper notes) was put into circulation, industry and trade had sprung up and the provinces which hitherto had no coin, had now become a wealthy country with 350,000 Rio in coin. Having this in view, I sought to bring my belief into realization and explained my plan to all the statesmen of the time. But owing partly to the seeming ^{but} radical character of ^{the} my scheme, and partly to the ignorance of most public men in respect to the matter, they ^{were} were much opposed ^{id} to the plan which I thought to be the only means of saving the country. As it was impossible to settle the ^{at once} question, the government called an assembly of councillors of state to consider the question. Thus, ~~we~~ all, together with the members of the Imperial Household, ^{came before} ~~went around~~ the Throne on January 29, 1868. The method

of proceedings, (this being before the ¹⁵Western ^{fr}Parliamentary rules were known to us) was very strange; each member present was to speak on the question ⁱⁿby turn. When my turn came, I proposed and discussed at some length, the necessity and benefit of the issue of a paper money. My statements created great excitement among those assembled, and an excited discussion of the problem, pro and con ensued. The final result of the debate was the order that my proposition be accepted, and I was authorized to make preparation for the issue of paper money at once." ¹⁹~~17~~ Thus, in the intercalary month (~~from~~ ^{from} the twenty-second of May to the nineteenth of June), the Dai-Jo-Kwan (Central Government) issued the following proclamation:--

"To create a sure basis for the prosperity of the realm on the occasion of the reformation of the Imperial government, after mature consideration, the issue of paper money has been decreed; and according to His Majesty's orders this paper money shall pass current in the whole empire from the present year Tat2⁴ to the next year Tat2⁵, i.e., for thirteen years, that by it the poverty which reigns everywhere in the country may be alleviated. The rules to be observed are

19 ~~17~~ Mr. Mioka's address on the "Issue of the paper money", quoted in Mei-Ji-Sei-Shi, Vol. I., pp. 117-118.

are mentioned below:--

"The date from which it shall be put into circulation shall be published by the proper authorities to all people, even down to the lowest class.

"Dai-jo-Kwan." 71

"As the introduction of paper money has been decreed, all Daimios shall be able to obtain loans according to their incomes, so that for every ten thousand kokus they may get ten thousand rios. They must submit their wishes with regard to this to the proper authorities.

"With regard to the re-payment they will be obliged to pay every year, for thirteen years, a tenth of the sum lent; payment to be made in notes, so that at the end of the next Tatz', the re-payments will have been effected.

"The provinces shall bear in mind that according to the intentions of the Emperor, through the paper money lent to them, a sure basis will be created for the prosperity of the country. They shall use it, therefore, to assist industry as much as possible, and to benefit their provinces. The Government of the provinces cannot be allowed to use their notes for unlawful purposes.

"To the merchants of Kyoto and of Setu (Osaka) and

of the neighboring rural districts, who desire to contract such loans, notes shall be given in accordance with the amount of business they transact, after they have expressed their wishes to the officers issuing the notes.

"To the inhabitants of the towns and villages of the Saibansho district^{20 ✓}s in the whole country, and in the territories of the province at their demand, after their fortune has been assessed, loans shall be given for the carrying on of their business. With regard to the repayment, they shall pay every year a convenient part of the sum with the interest.-

"Every where, in the whole country, the same principles shall be observed as with the merchants at Kyoto and Osaka.

"Such notes as are ^{annually} ~~yearly~~ repaid shall be destroyed in the Kaikokyoku. ^{21 ✓} (2)

"From the money lent this year between the first and seventh month exclusive, ten percent shall be returned at the end of this year; from the money lent between the seventh and twelfth month, only five percent.

20 ✓ (1) Judicial District.
21 ✓ (2) Bureau for Finance.

"In this manner, according to the will and decision of the Emperor, a substitute shall be created for the waiting coins. Nobody, therefore, ought to censure this measure. As, however, the loans are contracted in notes and are to be repaid in notes, no exchange (against coin) shall take place (1)

According to the text above, the sole object of issuing the paper money appears to ^{have} been to create "a sure basis for the prosperity of the country". But if this were the only object, ^{it is apparent} ~~we can not~~ understand why the measure was adopted just at that time, for the government knew that the over-issue of the clan notes had already caused their value to fall to ^{the} ~~its~~ lowest limit, that the people would refuse the circulation of paper note of any kind, and that, consequently, it was impossible for the government to lay a sure basis for the prosperity of the country by introducing a medium of exchange which the people ^{would} dislike and refuse to circulate. Hence there must have been some other impulse ^{no longer} ~~by~~ which the government was driven to adopt the measure at this unfavorable time; namely, the ^{insufficiency} ~~deficiency~~ of ^{existing revenues} ~~the measure~~ to meet the expenditure of the government. This is clear from the facts

mentioned in the foregoing pages.

We must not, however, consider that the object stated in the text was a mere pretense of the government, without any purpose of putting the measure into actual operation.

It was ~~that~~ ^{true} that as the capital ~~of~~ the country was not sufficient for the growing industry, ~~they had to increase it~~ ^{is necessary in some way to} ~~least~~ ^{increase} the usefulness of that capital, ~~in some way~~ ^{be increased}, in order to

extend the national industry. Moreover, the familiar maxim ~~was~~ that "when a people becomes rich, the King thereof will also become rich", still remained in the minds of the officials of the Empire. Under these influences, the government sought to assist the people who were not able to extend their

business on account of scarcity of capital. Quoting the

words of Mr. Mioka, the originator of the scheme. "During

the Keio Period, the Tokugawa government following the

Western system, had issued ^{23 ✓} paper notes (1). I thought then

that ~~the~~ ^{such} notes would never benefit the country but rather hurt its industries; the more paper notes issued, the poorer

country Japan ~~would become~~ ^{would become}, for the object of the Tokugawa govern-

ment in this ~~measure~~ ^{purpose} was for the ^{purpose of the} treasury only, not for the

benefit of the people. This is contrary to the true end of any

currency and to the principles of political economy. But
 our object was different from this; it was to aid the people
 who had no means of carrying on industry. (1) And ²⁴that the
~~government intended to carry on the scheme as stated in the~~
~~proclamation can be seen from its subsequent action.~~ ²⁵ Soon
 after the proclamation was promulgated, the government
 established the Bureau of Trade and Industry and took the
^{for promoting} ~~interfering~~ ²⁵ measure in industry and commerce. (2) It is
 also true that in accordance with the clause in the text, the
 government loaned the notes to merchants and farmers, although
 there is no ^{method of knowing} ~~way to know~~ ^{classes} how much they received. For in
 the statistics of the "Government Revenue" for the second
 fiscal term (Jan. 1869-Sept. 1869) we find an item, "Repay-
 ment of Industrial Loan" which amounted (for that year) to
 4,496,009,000 yen. Thus, it is evident that the object of
 the government was two-fold: to defray the expenses of the
 government and to increase the national capital. "There was
 moreover", says Count Okuma in his "Review", "a deficiency of
 capital in the country, and as only a very short time had

²⁴ (1) Mr. Mioka's address quoted in Mei-Ji-Sai-Sai, Vol. I. p. 110.

²⁵ (2) Mei-Ji-Sai-Sai, Vol. I. p. 121.

elapsed since the Restoration, it would have been impossible for the government, during the first five or six years of its existence to raise sufficient funds by way of internal loans to meet its expenditures. Under these circumstances, a resort to the issue of a paper currency became absolutely unavoidable. (1) And that omission of this principal object of the issuing paper money can be justified by the fact that it might have been dangerous to the existence of the newly organized government, of its financial embarrassment had been exposed to the public at the time of a national crises. (2)

(1) Okuma's "Review" p.2.,

(2) Afterwards five other kinds of notes were issued and circulated, the genesis and characteristics of which will be considered in Chapter III.

-:- CHAPTER II. -:-

-:- CIRCULATION OF THE PAPER MONEY. -:-

Thus, ^{in order} the proclamation was ~~made~~ ^{issued} with the view that the notes ^{might} ~~would~~ be circulated as soon as they were prepared. Mr. Mioka and his subordinates were busily engaged in the preparation of the issue. In summing up the work and the difficulties, these officials ~~had to pass through~~ ^{encountered}, Mr. Mioka says:--"Since the day of my appointment to this important office, I pledged myself to labor for this great project of the government ~~just~~ as hard as my strength would allow. Yet an unexpected difficulty was the increase both in the number and influence of the measure of the opponents. They employed many assassins and tried to take my life, ^{before} ~~this~~ to check the completion of the issue. I did not care so much for my life as for the plans of the government, for if I fell under the dagger of an assassin, the work we had undertaken might never be accomplished. On the other hand, the messengers from the battle field came as often as three times a day, and brought urgent pleas for reinforcements. In this dangerous situation we were placed and we worked day and night, until most of the required amount ~~was~~ ^{had} prepared."

On May 9, 1869, the notification of the central government was issued stating, "The paper currency which has been decreed, will be circulated from May 15, 1869. (1)" When the time fixed for the issue of the paper money approached ^{so} ~~the~~ opponents increased their efforts, and finally compelled the government to postpone the issue of the paper currency. These opponents were not among the traders and the merchant class, but were found among the Daimyo's and Samrai classes. The ~~chief~~ cause of this ^{opposition appears to} ~~measure may~~ have been the interest of these classes who were benefited by the circulation of the "clan-notes" and whose interests might be ~~affected~~ ^{affected} by the circulation of the new paper money. To understand ^{the situation} ~~that embarrassing position they were placed in,~~ we again refer to the words of Mr. Mioka himself. He says :-- "In order to begin to circulate the paper money from the date fixed by the decree, we had made all arrangements for this purpose. It was not an easy task to make such preparation at the time when we had no telegraph system and no such rapid

2 (1) Kempo-Rui-Hen, Vol. IX, p. 26.

distribution of mail as we have now. When all the preparations were made and it was our intention to circulate ^{these notes on} from the next day, to our great surprise and disappointment, an order of postponement reached us. Indeed, this was a very vexing question, for there was no way to stop the circulation because we had already sent the notes out to the principal cities and towns ordering the local authorities to distribute them. Even if we sent out messengers to these places, they could not reach the destination before the time assigned for the issue. I explained this difficulty to the authorities and they did not know what they could ^{do} done. The question was how to stop the circulation. I told them there was no way to stop the circulation of the notes which were sent out but I had one plan to stop the circulation of those in our hands without altering the decree and without weakening public confidence in the government. That was to set the Ni-Jo-Jo (a building where the paper notes were stored) on fire and destroy the notes; and then I would kill myself. Thus the government could announce my conduct and could postpone the circulation without injuring the dignity of the administration." (1)

Thus the problem of the paper currency returned to its original status, by the opposition of the nobility and the soldier class. But the condition of affairs was so critical that Prince Iwakura said :—"If no notes are issued, the soldiers on the battle field will starve," ^{the opposition of} so the anti-paper currency party ^{was ~~there~~ ^{in vain} ~~was unsuccessful~~} could not succeed in its opposition, and the government ordered Mr. Mioka to go on with his work and insisted ^{enforce} strongly upon the law. Yet the opponents ^{to} made such ^{offered} a stubborn resistance against the government that there was no one instance ^{where} General Saigo ^{was obliged} needed to go to Shimonoseki (1) with an army in order to enforce the measure. ⁴ ~~Thus~~ ² through difficulties and hindrances ^{was} the first paper money ~~was issued and circulated~~ on May 25, 1868.

Now that we have considered how the first paper money was issued and what difficulties the Government had faced, let us turn to the results of the issue and ^{thereafter} then to the measures which the Government adopted for the circulation of the notes. It is a difficult task to introduce a new institution but it is equally difficult, if not more so, to ^{put} carry through the scheme ^{into actual operation} started. When the plan of issuing paper currency was projected, the administration met with

manifold difficulties owing partly to the ignorance and prejudices of some officers against the plan, and partly to ^{the} indefiniteness of the government's design. But now when ^{I became} ~~they came~~ ^{necessary} to circulate the money among the people, the difficulties became more serious. Every merchant and tradesman refused to receive it. In fact, the money almost ceased to circulate at all. The causes which led ~~the people~~ to this general refusal were as follows:++

First. As has been stated before, this being the first paper money ever issued by the central government, especially a newly organized government, ^{regarded} the people ~~had looked at~~ the measure with very little confidence and consequently with suspicion as to its credibility. This ^{disturbed} ~~lack of confidence in~~ the government on the part of the people was the principal cause of the failure in circulation.

Second. At that time, the monetary system of the clan governments was ^{generally} ~~desperately~~ corrupted, and the central authority being ^{with} ~~by~~ ^{imprudent} ~~the~~ ^{to} reforms of their own administrative organs and ^{with} ~~by~~ the efforts to suppress the rebellion in the North, was not able ^{to} ~~to~~ reform it. These "clan-governments" ^{apart} ~~changed~~ the paper currency very frequently, destroying old and issu-

ing new notes, whenever the change was beneficial to their Treasury, without regard to the suffering and loss of the people. Through this arbitrary financial management of the governments, whenever ^{and} this alteration took place, the people suffered great loss. Naturally they looked upon the central government's notes in the same light as they had looked on the clan-notes, and had no confidence in the newly introduced medium of exchange.

Third. In addition to these general causes, there was a more specific and immediate cause, namely the indefiniteness of the ^{redemption} clause of the act of 1868. The act does ~~not make any~~ ^{make no} definite statement ^{as to} the limit of the issue and the method of redemption, ^{and} ~~except~~ the following; "such notes as are yearly repaid shall be destroyed in the Kai-Kie-Kyoku (Bureau of Treasury)". (1) Now, although it was stated that the object of issuing the paper money was to lay the foundation of national prosperity, yet the people knew that the real object was to make up the deficit of the public expenditure. It was clear that the money lent to the people might be redeemed at the end of thirteen years. But the people questioned

how the government would manage the paper money issued for ~~the~~ ^{the} use of the government.

These causes together with other minor matters brought the value of the paper money down to ~~its~~ ^a minimum. ~~This~~ depreciation began literally with its issue. ~~Every~~ Merchants in cities refused to receive it ~~for~~ ^{at} its face value, and the people in rural districts refused to take it at all. In consequence even in the three business centres of the country, ~~such as~~, Tokyo, Osaka and Kyoto, it was used only at sixty per cent discount. ⁶ (1) In the provincial districts, it ~~was~~ ^{not} not circulated at all.

How the government faced such difficulties and ~~man-~~ ^{under-} ~~aged~~ ^{came} them is our next consideration. One of two measures the government was obliged to adopt:- either to abandon the plan altogether or to enforce the act with power. No middle course was left. ~~But~~ it was impossible to adopt the first course, on account of the critical ~~period~~ ^{condition} of finance, which ~~has~~ ^{is} been repeatedly intimated. Hence ~~the~~ ^{was} second course ~~was the only one to which the government could resort.~~ In

order to remove these difficulties and prejudices, the government took various measures, ^{even} once appealing to the patriotic sentiment of the people, again seeking to secure co-operation by the words of threats and pers^oecution. But these failed in creating sufficient confidence in the minds of the people to cause them to accept the paper money as the government desired, and the value of the money was ^{continually} constantly falling. This depreciation occasioned the formation of an "exchange-commission House", where the paper currency was exchanged for specie at a certain discount. This institution intensified in the people ^{population} their dislike of the paper notes.

The government ^{then resorted to more measures} was obliged to take a forcible action, prohibiting "any person or persons from fixing any ratio of exchange of paper for specie" and ordering that "the violation of the law should be ^{liable to} judged on ^{penalty of} punishment". (1) This measure, however, did not prevent the depreciation of the paper notes, ^{rather} increased the people's distrust of the action of the government. The next step to open a way for the distrusted currency, was to create a demand for the

paper money.

This appeared in the form of a proclamation that "all taxes shall be payable in the paper money concurrently with coin, just as much as practicable" (1) Now

~~that a way for the circulation of the notes was opened they~~
~~person demanding for the note was created and his value was somewhat~~
~~could find some demand and consequently the value was raised,~~

yet they were circulated at twenty per cent discount. The

second ^{compulsory} ~~for~~ act was, then, adopted, ^{ordering} that "any one who should refuse to circulate the paper money should be regarded as one who resists and denies the Imperial Order."

But notwithstanding the enactment of this ^{unwise} ~~rule~~, the people refused to receive the paper money, and there were many who were ~~imprisoned, being~~ ^{also} charged with violation of the law ~~and~~ ^{and} ~~imprisoned~~

Thus, although the government exercised its power in ^{various} ~~possible~~ ways, ^{to secure} ~~for~~ the circulation of the government notes the natural course of events could not be prevented ~~by the~~ ~~artificial measure~~, and the people's dislike for the paper notes became greater and the fall in value of paper money ~~was~~ still ^{continuing} ~~continuing~~. This compelled the government to ~~take~~ ~~an~~ altogether different policy from what it had taken before

(1) Kempo-Rui Hen, Vol. IX, p. 26.

The former decree which had prohibited the fixing of a ratio between specie and paper was repealed and a new decree which permitted the use of the paper money according to ^{its} the market value was now promulgated. With the announcement of this law, those who were imprisoned as the violators of the former decree were released. But this new act ^{permitted} caused different values in different parts of the country and there was no way to estimate accurately the income of the government. Therefore, the government issued a decree which ^{provided} stated that "all the taxes and dues should be paid in the paper money as well as specie in the ratio of one hundred and twenty rio and one hundred rio; that the government would pay its outlay with the paper currency ^{in accordance} in the average value of ten days in a month." (1) ^{to serve as} No sooner than this decree was issued, ~~the~~ ^{the} value of the paper money began to fluctuate so greatly that the government, before the ^{measure} enactment was put into operation, was forced to amend the decree and to change the last clause, ~~to read~~ to "all government outlay and salaries would be paid in paper money with the ratio to specie stated, namely, one hundred

9 (1) Mei-Ji-Sei-Shi, Vol. I, pp. 205-206.

10.

and twenty of paper to ~~one~~ hundred of coin." (1) ~~What was~~
~~the result?~~ The people still ^{remained} continued refusing to receive
^{the money} ~~it~~; all kinds of business fell into a state of stagnation; ~~and~~
some of the wealthiest merchants closed their doors and many
smaller houses were dragged down by their fall; the distrust
took hold of the public mind and commercial credit was great-
ly injured.

In 1869, the government determined to bring ^{the higher currency} ~~it~~ up to
par and in April of that year rescinded the last decree and
enacted that no difference between coin and paper money should
be established, announcing furthermore that not only the vio-
lators of this law should be punished but also the head of
the province of which the transgressor was a ^{subject} ~~subject~~. The gov-
ernment also prohibited any exchange of paper money for coin
except ⁱⁿ ~~the~~ cases where the change was an alternate necessity.

But the natural course ^{could} not be stopped and the
tendency of the public will could not ~~and~~ be checked
merely by ^{laws} multitudinous legislations and edicts, if they were
not rightly applied. Thus, when the government tried to

raise the value by prohibiting the establishment of any market value ^{discount} of the paper money, the value thereof fell; when it was ^{ordered} ~~commanded~~ that the notes be circulated throughout the empire, they returned to the cities; again when the paper money was ordered for use in daily transaction, it lost the quality which would make it the standard of value and consequently, of adjustment of prices. Hence, in June 1869, the government was forced to issue the decree making the paper currency redeemable in thirteen years, announcing that either it should be redeemed in coin by the end of 1882, or if that were not done, interest at the rate of six per cent. should be ^{added} ~~put~~ upon the whole amount in circulation. ¹¹ (1) It also announced its intention ~~of~~ ^{to} abandon the issue of large quantities of paper money which had been contemplated and ~~to~~ ^{to} destroying the machinery that had been erected for that purpose, and further that any one found offering a discount upon paper money should be fined. The thirteen years ^{during} for which it ~~the~~ ^{notes were to remain in circulation} was intended to be used were shortened to five years ¹² (2) and the maximum amount was limited to the existing sum,

11 (1) Count Okuma's Review.

12 (2) Count Matsukata's Report of 1890, p. 31.

32,500,000 rio. Through these measures ^{as a result} stating the maximum amount, and the term of redemption, the stability of ratio of exchange of paper currency was established; but the dislike ^{to it} ~~was~~ still prevailed among the people of provincial districts. Consequently, all paper money ~~came~~ ^{returned} back to the cities and specie left cities for the rural places, ~~thus a~~ ^{and} scarcity of metallic money, in cities resulting ^{ed} in general prices rose and the people in the cities fell into still greater distress. The government vainly attempted to level prices in the cities and provincial districts by distributing paper money according to the amount of the products of the farming people, and ~~on the other hand~~ ^{also} ^{by} distributing coins which gathered in the country places among the city people. ¹³ ~~These plans being unsuccessful, the government was forced to withdraw the paper money which was thus distributed.~~

In June of 1870, when the Rebellion was suppressed and the people began to know the policy of the government, the decree was issued that the prefectures should form an alliance to circulate the paper money. This was carried on very successfully and from this time on, the way to the city

circulation of the paper money was gradually opened, until within a few months, it ~~was~~ passed at par (~~in value~~) with specie.

Although these legislative measures ~~may~~ ^{might} have had ~~much~~ ^{some} to do with bringing the value of the currency to that point, yet there were two ~~counteracting~~ ^{important} causes by which the success was attained, namely, first, the increased confidence of the people in the government; second, the desperate condition of the currency system of the Old Regime.

14. The depreciation of the paper money was not caused by over-issue, but by the lack of confidence of the people in the government. Hence, when the Civil War was over, when the social order was restored and the people understood the plan and policy of the government, the confidence was increased and the ~~circulation of~~ the notes began to ~~operate~~ ^{circulate}. Notwithstanding the fact that the issue of notes was greatly increased, yet the value rose not only to par with specie but ~~there was the time when specie was exchanged for paper~~ at a discount. 145- (11)

14 (11) Count Matsukata's Financial Report of 1890, p. 111.

2. The corruption of the currency system of the Old Regime.

2. At the close of the Tokugawa Regime, when the government was in ^{also} stress for lack of funds, they melted ~~out~~ good coins, ^{were melted} and re-coined ^{into} an inferior money with alloys. Thus, ~~they increased the full amount of currency and decreased its~~ ^{was increased} real value. ^{increased} Moreover, when the central power of the Tokugawa government became weak, each separate feudal local government practiced this ^{same} process of re-coinage. In this way, when the Restoration was established and the new government was formed, the currency system was grievously ^{and} ~~for~~ excessively corrupted. All good coin was either stored in the treasury of wealthy men and withdrawn from circulation, or exported into foreign countries, and the coin in circulation was ~~nothing but~~ ^{debased} counterfeit money which had lost the quality permitting it to be a standard of value. The consequence ~~was~~ that coin of the same denomination came to have many different values according to the quantity of gold it contained.

In addition to these ^{debased} ~~counterfeit~~ coins, there were so called "clan-notes." ¹⁵² (1) Soon after the Restoration as

well as before, the clans needed funds to ^{accomplish certain} ~~achieve~~ some internal reforms of "clan government" and over-issued the notes until they had no value. Although these notes were circulated only within each clan, yet the issue was universally adopted and its over-issue affected the trade of the whole country. Thus, the people suffered from ^{various} ~~various~~ difficulties; in ^{internal} ~~the~~ trade within a clan, they suffered from over-issue of the paper currency and, in ^{external} ~~the~~ trade without the clan, from the circulation of the ^{debased} ~~counterfeited~~ money. ~~Thus~~ ^{Now} the cry for a uniform correct system of currency came from all parts of the Empire. Just at that time, the Imperial government announced that the government notes would be exchanged for the good coin and ^{the} uniform monetary system would be established within a few years. ^{Moreover} ~~On the other~~ ~~hand~~, the government succeeded in reforming all corruptions and in assuring the public of the fidelity of the administration. With the confidence in the government, the credit of paper money was increased. Thus, the ^{depreciation} ~~refusal~~ of the "clan notes" and ^{the debased} ~~counterfeited~~ coins of the Old Regime was turned to the ^{useful} ~~advantage~~ of the new government notes.

-:- CHAPTER III. -:-

-:- KINDS OF THE ^{Currency} PAPER MONEY. -:-

When the Imperial government began its administration, the prevailing paper money was the so-called Hansatsu, (Clan Notes), which had been in use since the seventeenth century. With the new administration, a new currency system was instituted, under which there was another issue of paper money. This new paper money was of six kinds, namely 1+-The Dai-Jo-Kwan-Satsu (Government Notes), 2+-The Mim-Bu-Sho-Satsu (Civic Department Notes), 3--O-Kura-Sho-Da-Kwan-Sho-Ken (Treasury Convertible Notes), 4+-The Kai-Taku-Shi-Da-Kwan-Sho-Ken (Colonial Department Convertible Notes), 5+-Shin-Shi-He (New Paper Money), 6--Kai-Ryo-Shi-He (Improved Notes).

~~Let us proceed to study these various notes successively.~~ ^{with the government}

Han-Satsu, In the period of the Kwam-Eun (1661-73), Matsudaira Tada Masa, the Prince of Fukui, having suffered financial embarrassment, after proclaiming that the Tokugawa government had not fulfilled its promise to grant him additional territory, persuaded the Shogun to give permission

for the issue of clan notes to be circulated within his territory. This was the origin of clan notes, which were circulated until the abolishment of Hans (clans) in 1872. In the Gen-Roku (1688-1704), many South-western provinces following the Fukui experiment, ^{and} issued a silver note to a considerable extent. ~~Since that time~~ ^{Thereafter} the feudal nobles who suffered from financial difficulties have adopted this measure as the only ^{5 relief} ~~policy~~ of the provinces from their embarrassment. Although the Tokugawa government objected strongly to surrendering the exclusive right of coinage, it was compelled to grant this right to a few Daimyos. Now to restore the right, "in 1707 (Hoyei IV), the government prohibited the further issue of all such money, in terms which seemed ^{also} to include ~~also~~ even the ^{subsequent} circulation of what had been already put forth. In 1730 (Kyoku XV) it was found necessary to repeal this prohibition, ~~the object being~~ ^{in order} to bolster up the price of the rice. The permission applied to gold, silver and copper bill equally, and was to continue ^{whereas} ~~for the~~ Daimyos

(1) This idea of paper money was introduced from China where it had existed since the Dynasty of Kan. Mei-Ji-Sei-Shi. vol I p. 367.

of 300,000 Riku or more for twenty-five years, ^{in the case of} but for those of smaller estates, for fifteen years only. In 1755, the license was restricted to silver bills only. Subsequent legislation merely declared the policy of refusing to grant it to daimyos other than those already possessing the privilege²⁴ (††). At the close of the Tokugawa Government, many daimyos issued more paper money than the law allowed and some of the daimyos issued ^{more} without any permission at all.

These silver notes were of many denominations. In Fuku (Etsuzen), for instance, where the earliest issue of clan notes took place, the denominations were 1, 2, 3, 5, 10, 20, and 100 monme. It would seem that none of the issues were in name irredeemable, although the actual value of the notes was more or less affected by the pecuniary condition of the daimyos. Some of the more opulent daimyos established at Osaka banks for the redemption of their issues and in consequence their notes had a large circulation outside their own fiefs. Various artifices were resorted to for inducing the accep-

24 (††) Transactions of the Asiatic Society of Japan, Vol. XX, Supplement, p. 168.

tance of the paper money. For instance, the Prince of Mizen
 ordered that for 100 monme of silver coin, 101 monme of notes
 would be given, while for 102 monme of notes, there would be
 given only 100 monme of silver. It will easily be under-
 stood that, from the scarcity of coined money under the Old
 Regime, the ~~Daimyo~~ ^{Daimyo} in many cases felt themselves compelled
 to increase ~~the~~ ^{the} circulation by issuing paper money. In other
 cases, the necessity arose of defending their own fiefs from
 the paper money of adjacent fiefs by following the example
 of their neighbors, and thus preventing a drain of their own
 coin. But there were many cases in which paper money was re-
 sorted to merely as a means of escape from pecuniary embar-
 rassment which both the taxes and the official money-lenders
 were powerless to relieve. ³ (1) At the time of the Restora-
 tion, the over-issue of the paper notes ^{had} reached its maximum
 and consequently, the fall in the value of the notes was con-
 siderable, its exchange ~~value~~ ^{rate} being one eighteenth of gold.
 Thus, the clari notes came to be of scarcely more value than
 waste paper. When the new government issued paper money

3 (1) Transactions of the Asiatic Society of Japan, Vol. XX
 Supplement, p. 169

the clan-notes interfered greatly with its circulation. The two notes could not exist together, for as the circulation of one was extended, that of the other was necessarily contracted. When the Hans (clans) were abolished and the country was redivided into prefectures, the chief object of the government was the centralization of power. This included, of course, the right of coinage. But the existence of the clan-notes was contrary to the ~~object of the~~ centralization of government, for at that time, there were in circulation, many inconvertible currencies, issued by the different authorities. Moreover this was not only detrimental to the commerce and industry of the country, but it affected directly the finances of the government, because since the clan notes were legal tender, the government was obliged to accept them whenever presented for taxes, dues, etc., while the clan-notes could not be used throughout the country, but only within certain feudal territories.

For these reasons, as early as 1870, the government ~~proposed a measure for the management of the clan-notes.~~ ^{directed its attention to} At first, the government issued an order, prohibiting the circulation of the notes issued without the permission of the Shogunate, and those issued after the Restoration. Secondly,

all further issue of notes and bills similar to the clan notes was stopped and the manufacture of the paper which was used for the clan-notes was brought under direct governmental inspection. Finally, the government attempted to exchange the clan-notes for government notes. In the decree issued on July 14, 1871, we read, "currency should be of uniform nature, yet heretofore the different dukes have issued various notes, and the system has thus become heterogeneous, while the exchange value of the notes has become extremely confusing. Now that the clans are abolished, these notes should be exchanged for the government notes according to the exchange value of to-day." (1) Later on, it was ordered that "such plates as are used for printing the notes, and the unused material shall be taken by the authority and be destroyed". (2)

At the close of the Tokugawa regime there were 112 Hanyu (Clans), 14 Ken (Tokugawa's direct territory), 2 Hatamoto (Direct Retainers of Tokugawa) whose issues of paper money were extant. The notes were of various kinds, and of different denominations; there were 1094 different kinds and the

4 (1) Kem-Po-Rui-hen Vol. IV, p. 25.
5 (2) " " " " " " " " 34.

amount of circulation in the value of the coin, was 24,930,000 Yen. At first, the government ordered the Hsiao to liquidate all the notes in circulation within each territory, but owing to the inability of the Hsiao to do so, the government was obliged to assume the liability for the entire amount. To accomplish the liquidation of this liability, the government determined to exchange these clan-notes for the "New Paper Money" (1), thus unifying the currency system of the country. But soon the government found two difficulties in the way of carrying out this measure: 1--The heterogeneous kinds of clan-notes, and the existence of notes of small denominations. 2--The absence of any provision for the exchange of these notes. Owing to these difficulties, the government was forced to postpone the exchange and to permit the circulation of the clan-notes for awhile as before. This last measure, however, created discredit in the clan-notes, notwithstanding the promise of the government to exchange the clan-notes for the new currency. The abolishment of the Hsiao and the establishment of prefectures, created considerable confusion in regard to the boundaries of territory,

(1) See p. 54.

since the old Han did not altogether correspond with the new prefecture, and consequently, there was also confusion of the limits of the circulation of the clan-notes. This caused the depreciation of the clan-notes. To overcome this difficulty, the government distributed the schedule of ratio between the clan-notes and new currency on one hand and, on the other, it defined the boundary lines within which each clan-note should be circulated; For example, in the case where an old clan now came under the jurisdiction of more than one political division, according to the new system, the clan note could be circulated within the new political division, although it might be outside of the original clan jurisdiction. In order to raise the value of the notes, the banks were ordered to buy in the notes where they were the most depreciated and the government, at the same time, undertook to cancel all the notes. Such notes as were received from the Hans, either for the reserves, or for the repayment of individual loans, or for taxes, or dues, were destroyed. But no provision being made for the exchange of small notes, less than 5 sen (cent), the exchange was to be postponed until the small coin could be issued.

of clan-notes was made, the government began to exchange all the notes above five sen for the new currency (and the notes below that denomination in 1874). The redemption of the clan notes was completed in June, 1879. This conversion of the clan-notes was one of the most important measures undertaken by the new government. It facilitated the free exchange of commodities and developed the national economy, extending the circulation of the government notes, increasing the confidence of the people in the government, and finally, unifying the currency system of the Empire.

Dai-Jo-Kwan-Satsu (1) (Government Notes). The Imperial Government issued ^{to} ~~this~~ note in 1868 with the intention of continuing it in circulation for thirteen years, at the end of which ^{time} ~~all these notes were~~ to be converted into coin. Later when the people began to discredit the notes and their value consequently fell, the term was shortened to five years. If the notes were not redeemed at that date, interest at the rate of 4% should be paid upon the

(1) Cf. Chapters I and II.

whole amount in circulation. At the end of the fifth year, 1873, with the object of contracting the circulation, they issued "bonds in exchange for Kinsatsu" (paper money), bonds which they undertook to pay 6% interest on all amounts of paper currency which might be offered in exchange for these bonds. But as the credit of the paper currency was daily improving, while there was a general need of capital for carrying on business, there was very small demand for these bonds, Kinsatsu were exchanged for the "New Paper Money". The amount and denominations of the Government Notes were as follows:--

<u>Kinds.</u>	<u>Amount.</u>
Rio 10 bill	Rio 23,032,000
" 5 "	" 5,969,000
" 1 "	" 15,485,000
Bu 1 "	" 5,161,000
Shu 1 "	" 1,050,000

These ~~were~~ issued from May, 1868 to December 22 1869

Mim-Bu-Sho-Satsu (Civic Department Notes) This was issued by the ordinance of September 1869, by the Civic Department (1) and the kinds of the currency were of small de-

7
 (1) Afterwards the Department was divided into Finance Inter-
 -43-

denominations; namely, Two-Pu (50 sen), one-Pu (25 sen), two-Shu (12.5 sen) and one-Shu (6.25 sen). The full amount of the currency was not to exceed 7,500,000 Fio.

These notes stood in the relation of subsidiary currency to the government notes. For in the decree ~~stating~~ the object of the issue, we read, "Owing to the fact that the existing currency consists only of paper notes of large denominations, the people of the remote towns and villages may suffer from inconvenience in the daily transaction of business. Hence, the Bureau for Commerce will issue notes of smaller denominations, and the notes of larger denominations which are exchanged for the smaller shall be destroyed. (1).

Then, the question may arise, since this currency and the government notes were issued by the same central government, why is it that one is called the "government notes" and the other the "Civic Department notes"? The answer is this; that the government issued the proclamation in May 1868 that the "amount of the notes will be limited to 3,500,000 Fio, and after that amount is reached, the plate used for

for and Justice Departments.

(1) Kem-Po-Rui-Hen, Vol IX, p. 40.

the issue will be destroyed--" The government could not change the promise thus made to the public. Therefore, the government ordered the department in which the financial function of the government was exercised, to issue these subsidiary notes in the name of the department. The total amount of notes issued of the various denominations was as follows:--

<u>Denominations.</u>	<u>Amount.</u>
Two-Shu Bill	3,383,000 rio
One-Shu "	2,407,000 "
Two-Shu "	1,093,000 "
One-Shu "	315,000 "

The issue began in September, 1869 and was completed in October, 1870, and in October, 1880 they, with the government notes, were exchanged for the "New Paper Money".

O-Kura-Sho-Da-Kwan-Sho-Ken (Treasury Convertible notes). These notes were issued by the ordinance of October, 1871, in the name of the Mitsui Company. (1) The object of

9 (1) The House of Mitsui was founded early in the 17th century in Kyoto by a man of that name coming from Echigo province in the West. Contradictory stories are told as to which of the family's masters first brought it into prominence by his es-

issuing these notes was two-fold; primarily, to defray government expenditures, and secondarily, to buy in all the old coins which were floating in the country.

The year, 1871, marks the abolition of the Han(clan) and the redivision of the country into prefectures, and the administrative sphere was correspondingly extended, causing the ordinary and extraordinary expenditures to be increased to 57,730,000 rio. On the other hand, owing to the fall in price of rice ¹⁰ (1) which constituted the principal source of the government revenue, the income from both ordinary and

energy and skill. Romance has colored its earlier days; but at any rate no long time elapsed before prosperity began to visit the house, and after one or two generations, it found itself with branches extending to all parts of the country, the chief stores being six in number, one for each branch of the family. The house had taken the name of "Echigo House"; and as early as the last decade of the 17th century its fame was such that Kaempfer was attracted by the extent of its commercial operations to make special mention of its achievements".

(—Transactions of the Asiatic Society of Japan) Since the Restoration, this house has acted as a financial agent of the government.

10 (1) In 1871, the maximum price of rice was 4.32 yen per koku, and the minimum price was 1.81 yen.

extraordinary amount, did not exceed 31,510,000 yen, leaving a deficit of 21,120,000 yen.

To make up this deficit two measures were considered; one was, the issue of more inconvertible notes, and the other was the sale of the gains (Li-bu-kin) which were deposited in the treasury from time to time. But neither of these measures were practicable; for the former would be contrary to the decree announcing that no further issue should be made and the latter would be undesirable at a time when the government was planning to establish a new coinage system. The value of specie fell very low and the people disliked to use the coin. At this time the government was compelled to gather all the coin possible in order to prepare a basis for the future coinage, so that the sale of the coin, the government already possessed was not to be thought of. Hence another measure was sought. This scheme was to authorize the confidential private commercial house to issue notes and circulate them, the adoption of this scheme had two advantages; 1- the government could succeed in raising enough

to meet the deficit; ^{(6) 3} A large quantity of specie could be collected with comparatively little expense.

The Method of Issue ^{11 ✓} (1) The Mitsui Company ^{as a} was no more than a Government agent in issuing this note. Whenever the Treasury Department wanted money, the Company received its order with the reserve equal to one half of the amount of notes to be issued. If exchange ^{for} specie were demanded and the demand were greater than the measure received, the Company had no right to demand more of the Government; Accounts of all the transactions were to be subject to Government inspection. In the case of destruction or loss of the measure either by fire or theft, the Company ^{was} were responsible for the loss; all expenses incurred by issuing the notes, sealing them, etc., should be paid by the company. For all this trouble and work, the company was permitted, for compensation, ^{to have} to have twenty percent of the total issue, for their own use without reserve.

This compensation was clearly excessive. During the period while the notes were in ^{circulation} circulation, the company

had the right of using for their own benefit one-fifth of all the notes issued. Of course, ^{The next} this note being convertible, the Company ^{was at} must have some reserve. But so long as there was not too much demand for redemption, it could use the government reserve, if need be, since there was no definite rule ^{for the} as to exchange for the coin, or in circulation of certificate which ^{substantially} distinguishes the notes in the use of the government, from that ^{of the} of the Mitsui Company. Again, the expense of issuing the certificate would be ^{very} slight and, moreover, when it had this privilege, the confidence of the company became very great. Thus, this measure of the government has enriched the company in an extraordinary degree.

It was not long, however, before the government found out that the compensation of the Company was too much for the little service, ~~it had~~ rendered. In 1872, the government established the system of Deposit which was intended for exchanging the note. Since then, ~~they have~~ changed the contract with the Mitsui Company, and now, although it has the use of one fifth of total notes issued, ~~as before~~, yet the Company is obliged to exchange one fifth of all notes ~~demanded~~ ^{for the} for redemption. After five years, the Company had to pay back twenty percent of all the notes issued to the

Treasury Department and during that length of time, the Company had to deposit twenty percent of the sum in specie, on which the government should pay reasonable rate of interest. In short according to this new contract, the compensation of the company was the privilege of borrowing the money without interest for a security bearing interest.

The original intention of the government was to limit the amount of the notes to 3,000,000 yen; but as the financial difficulties were critical and the issue was intended to meet the deficit in the revenues, the government was compelled to issue more than was originally intended. So we see that the amount of the notes issued from October to December, 1871, reached 4,772,000 yen and during Jan. and Feb. 1872, 2,028,000 yen, making a total of 6,800,000 yen. Notwithstanding the enormous increase of ~~of~~ the issue, the credit of the notes did not change at all; for at the beginning of the issue, the government promised to exchange notes for coins at demand and to destroy the notes redeemed. Moreover, since it was at a time when the old coin was unpopular, the people preferred the use of the paper money to that of specie. As far as this scheme in issuing these convertible notes is concerned, the government was certainly successful.

But the subsequent management, caused the notes to fall into great disfavor, from the evil effect of which the country had suffered for many years.

If the government had followed the plan originally intended, ^{stated} destroying the notes exchanged, ~~there would be no~~ ^{the entire issue would} ~~have disappeared~~ ^{of the currency} ~~trace of inconvertible notes in the country, and the~~ ^{the} ~~economic~~ ^{condition} ~~condition~~ would have been greatly bettered. But contrary to what was originally intended, when the notes ~~demanded for~~ ^{redeemed} ~~exchange~~ reached one fifth of the total issue of notes (October, 1871 to March, 1872) the government ~~changed its plans.~~ Instead of destroying ~~the notes,~~ ^{redeemed notes, returned} ~~they put~~ ^{to} them again into circulation. Again, when the amount of new coin reached 51,990,000 yen, the government could have accomplished the redemption of ~~the notes~~ ^{these payments} as originally intended, if it had made the attempt. But instead of ~~following~~ ^{attempting} this plan, it exchanged the notes for the "New Paper Money" which was itself inconvertible money. Thus, the paper money which was originally issued ^{with the} ~~promising to be convertible~~ ^{as convertibility} into coin lost the quality of ~~convertible money~~ and was added to the enormous amount of ~~the~~ inconvertible paper money, already in circulation. All this mismanagement was based on the belief of the officials that as the notes could be circulated at par

value with coin, whether convertible or inconvertible, it was ~~conversion into coin now demand was unnecessary~~ not necessary to exchange the notes for coins, forgetting that the reason that the notes could pass at par with coin was because, even though nominally inconvertible, they were practically convertible.

Kai-Taku-Shi-Da-Kwan-Sho-Ken (Colonial Department Convertible Certificate). This, ^{as the one preceding, was similar, in appearance} ~~was issued by~~ the ordinance of May, 1871, ~~as the one preceding this,~~ by the Treasury Department in the name of the Mitsui Company.

The object of ~~issuing this note~~ ^{the issue} was the promotion of the industry and commerce of the Northern Island (Hokkaido). The important question, how to open the "Island of the Barbarians", had been agitated from time immemorial. ^{that} Since the Restoration ^{and} ~~when~~ the nationalization of the Empire was ~~accomplished~~ ^{planned}, the need of settling this question was very keenly felt. This Island, ^{as} ~~being~~ the Northern Gate of the Empire, ~~it~~ required a garrison ^{for defense} ~~to defend it~~ from a Northern invasion. ~~and~~ Having a large population ^{relative to its} ~~for a small area~~, the government needed to ~~make use of~~ ^{secure} all its arable land for cultivation.

tion while experience proved that the Island was covered with valuable natural treasure. ^{12th} ~~(1) Therefore,~~ ^{accordingly} soon after the new government was organized, the question of ^{the} colonization of the Hokkaido was considered. ^{It} ~~But this~~ was a great undertaking; ~~the enterprise would require~~ ^{necessary} large funds in order to attain any success, and owing to its financial embarrassment, the government could not appropriate any additional ~~fund~~ ^{resources} for this purpose. In 1872, Gen. Kuroda, the ¹ Head of the Colonial Department, ~~through~~ ¹ the consent of the Treasury Department, proposed to issue ~~4~~ convertible certificates amounting to 2,500,000 yen, and the proposition was accepted by the Council of ~~the~~ State.

~~Method of issue and contract with the Mitsui Company.~~

The issue of these notes was ~~very~~ similar to that of the Treasury notes, but with certain modifications. When the Colonial Department ~~wanted~~ ^{required} the notes, ~~this Department~~ ^{this was done by the Imperial Bank} through

^{upon request} the Treasury Department, ~~ordered their issue by the Agent Company~~ against a reserve equal to one third of the issue ^{amount} demanded. The ~~term~~ ^{time} circulation was to be ten years; during ~~the~~ ^{whole} term, the Colonial Department ~~should~~ ^{was to} prepare for

redemption and ~~if~~ no steps were taken for this purpose, the Treasury Department ~~should have the right to draw the amount~~ ^{was authorized} ^{with the} from the annual appropriation of the Colonial Department.

All the expenses ~~for~~ ^{incurred} issuing the certificates ^{were to} be borne by the Colonial Department. These two ~~certificates~~ ^{certificates}, Treasury and Colonial, ^{and} (however) were ~~manufactured~~ ^{manufactured} very poorly, and were easily counterfeited. Hence the Government decided to stop the circulation after May, 1877, and they were ^{then} exchanged for the "New Paper Money".

Shin-Shi-He (New Paper Money). The object of issuing this paper money was two-fold; to prevent the circulation of counterfeit money and to unify the currency system.

Prevention of Counterfeit Paper Notes: In 1870, when the paper money ^{had} begun to win the confidence of the people and the solid basis of the currency system was almost laid, the country was greatly alarmed by the appearance in ~~the~~ market of numerous counterfeit bills of various kinds. This was a great misfortune to the country, for the forgery would again depreciate the paper money to the minimum value from which it had been raised but a short time before. This spin-

ious money was ~~for~~^{issued} not only by lawless natives, but also by the Chinese ~~gangs~~^{counterfeiteres}. How did the government manage this? There ~~were~~^{had been} many forgeries committed ~~at~~^{since} the time when the "clan governments" were still in power, but ~~considering the fact that~~ ^a it was in the time of the great ~~confusion~~ and when the centralization of power was not fully consummated, ~~and~~ the government ~~could~~^{could} not take any strict measure against this ~~kind of~~^{kind of} misdeemean~~r~~. But now when the central government was fully recognized by the people throughout the country, the authorities ~~were constrained to root out~~^{determined to put an end to counterfeiting} the forgeries and all the evils connected with ~~them~~^{therein}. Especially, at a time when ~~this evil grew to any extent, it would destroy the bud which was to burst forth into the beautiful flower of national prosperity.~~ ^{Accordingly} Therefore, the government issued private instructions addressed to local authorities throughout the Empire as follows:--

— "Notwithstanding the fact that the government had already made the announcement that it would convert paper money into specie, we are surprised at the appearance of counterfeit bills. This forgery is a great evil which endangers the prosperity of the nation. Therefore, careful investigation should be made and those persons who have con-

mitted the forgery should be judged according to the law.

Search for the spurious money, examine it with care, and if proved to be counterfeit, destroy it and report to the Civic Department concerning the matter. Manage the affair privately,

for if the public knew this fact, the people may refuse to receive paper notes, thus preventing again the circulation of any kind of paper currency. (1) Soon

after ^{these} instructions were issued, the ^{Ministry of Treasury} government was ^{public} ~~unable~~ to keep the fact secret. So the central government is-

^{counseled} ~~used to~~ the public the order to investigate spurious money and established the examining offices at Tokyo, Osaka, Kobe

and Yokohama (afterwards at the seat of each Prefectural government), in order to prevent the circulation of the counterfeit^{notes}. Many ^{persons} were sentenced for participation in the for-

ger. The Chikuzen province was punished ~~more~~ severely.

14 ⁽²⁾ ~~(1)~~ Kuroda, the ^{chief} ~~chiji~~, head of the provincial government, was dismissed from office owing to some of his clan having been implicated in the ^{conspiracy} ~~forgery~~ of the paper money to a considerable extent in their province; five were condemned to death

and four to ten years penal servitude. (2) Concerning foreign criminals, the government discovered that four subjects

13 (1) Mei-Ji-Sai-Sai- Vol. I. p. 290.

14 (2) The head of the local authority.

15 (3) F. O. Adams, History of Japan, Vol. I. p. 250.

book no. 1, 2, 3

of the Chinese Empire, named Go-Kitsu-no, So-sho-no, Li-Shi-Kong and Chon-jie-Kyoku, were implicated in the forgery.

The Chief of Police, Chin-fuku-kun, was notified and ^{directed} ~~asked~~ to punish them and to destroy the thirty plates of ^{counterfeit} ~~spurious~~ money, and the ^{head of the provincial government} ~~Taotai~~ (1) was requested to take some measure for prevention of future forgery. Thus, through the quick

and able management of the government the evil was rooted out before its effects upon national affairs became very serious.

The ^{series of counterfeitings} ~~Forgery~~ which, at one time, ^{placed} ~~put~~ the country in a very dangerous position, but which was suppressed within a short time, ^{directed} ~~called~~ the attention of the authorities to the fact that this ~~previous event~~ was due greatly to the two defects in the existing paper money, namely, its imperfect manufacture rendering it easy to counterfeit, and the poor material of which ~~the paper money~~ ^{it} was made, ^{rendering it non-durable} being very perishable. These facts caused the government to ^{consider} ~~undertake~~ a change in the existing paper money and the issue of a perfect currency, thus preventing any successful forgery in the future.

Just at that time, ^{a German ambassador, Count von Bismarck, was} ~~the~~ ^{advised} ~~Danforth's~~ ^{established in} Frankfort-on-the-Main made an application to the Government (1) ~~the head of the provincial government.~~

through Herr von Blank, ^{German} Minister of the German Empire to Japan, ~~assuring the government~~ ^{instructed} that the paper money issued by the means of lithographs of their establishment would never be forged and that if the amount of a first order ^{were placed with} ~~was issued~~, they would teach the art to Japanese artists. The Japanese government accepted the offer ^a ~~and the~~ contract with the Dendorf ^{was} ~~is~~ completed in October, 1871 and the artists were sent in January to learn the art of lithography, ¹⁶ ~~(1)~~ Thus, in order to prevent counterfeiting, the government ordered of Dendorf new German paper notes amounting to 1,000,000 yen.

UNIFICATION OF THE CURRENCY SYSTEM.

A few months later the authorities found that ^{in consequence} ~~since~~ the strict measures ~~had been~~ adopted for the prevention of counterfeiting, the credit of the government notes was restored and the number of spurious notes was greatly diminished. ^{accordingly} ~~Consequently~~, the officers in charge of the financial affairs of the government considered it unnecessary to redeem all the old notes immediately, ^{but proceeded at once to call in} ~~One decided to be called in at~~ ~~also, namely, the "clan notes".~~ ^{we have come to the con-} ~~We have come to the con-~~ ~~clusion in a previous chapter that the existence of these~~
(1) History of Japanese Currency, Vol. XV., p. 35. Also Reind Industries of Japan.

~~notes was a great hindrance to national prosperity and to the centralization of government. Therefore, it was natural and right for the government to seek to exchange all the clan notes for new government notes, thus unifying the currency.~~ This proposition was accepted by the Councillors of State and ~~in the proclamation of Dec. 1871, we read:~~ ^{was issued:}

"Owing to the poor manufacture of paper money, there are many who have lawlessly attempted to counterfeit the government notes, and there are also gold, silver, and copper bills in present circulation, which have been issued by divers clans. ^{an} ~~these~~ ^{element} ~~factors~~ create much inconvenience, as well as positive loss in the transaction of business. Therefore, although the government has been burdened with enormous outlay yearly, it has issued new paper money of excellent quality ~~for~~ ^{of} the following denominations; 100 yen, 50 yen, 20 yen, 10 yen, 5 yen, 2 yen, 1 yen, 50 sen, 20 sen, 10 sen, and 5 sen. Of these 1 yen, 50 sen, 20 sen, and 10 sen will be issued and circulated from Feb. 15, 1872. As soon as ~~they shall be issued~~, all the old government notes and clan notes will be taken in exchange for them. ¹⁷ ~~Leaving in mind this kind measure of the government to the public welfare, circulate without distrust or hesitation~~ (1) Kem-Po-Rui-Hen, Vol. IX, p. 25.

In 1872, ~~as decreed~~, when the Han, (clan) was changed into the Prefecture, the government determined to exchange all clan-notes ^{and paper} ~~made~~ a second order for 50,000,000 yen. Afterwards, ~~to exchange for the notes worn out~~, the original lithographic plate was transferred from Germany to Japan and the reserve notes were issued at the "Paper Currency Bureau", ^{the amount of} amounting to 3,537,000 yen.

After these two original objects were accomplished, the government sought to exchange all government notes and certificates. ~~Hence, to sum up all~~ ^{various purposes} the items for which these so-called "New German paper notes" were issued, ~~were~~ ^{summarized in} have the following table:--

<u>Purpose of Issue.</u>	<u>Amount.</u>
Conversion of all ^{old} notes-----	52,897,000 yen.
" " clan -notes-----	22,618,000 "
To defray the colonial expenses-----	1,100,000 "
Conversion of Treasury certificates---	6,784,000 "
" " Colonial " ----	2,463,000 "
To cover deficit-----	8,525,000 "
" " the expense of suppressing Rebellion of 1877-----	27,000,000 "
	121,387,000 yen.

Concerning ^{purpose} the first ~~item~~ conversion of old government's notes, ~~this~~ ¹⁸⁷¹ was to exchange the Treasury and Colonial Department certificates ~~(1)~~ for the new paper money. The ~~1~~ ¹⁸⁷¹

^{argues}
~~argument of the officials~~ was that the issue of 100,000,000
yen had been ordered, although the total sum of government ¹⁹⁴~~(2)~~
20 ²~~civic~~ and clan-notes to be exchanged was not more than
85,000,000 yen; that there existed, therefore, an excess of
15,000,000 yen; that if this excess were devoted to the re-
demption of other outstanding notes amounting to 9,300,000
yen, Treasury notes of 6,800,000 yen and Colonial Certifi-
cates of 2,500,000 yen there would then be no need of ex-
pending specie for their redemption. Thus, ^{inconvertible}~~these~~ certifi-
cates ^{were thus exchanged for}~~which were decreed to be~~ convertible were ~~inconvertible~~
notes.

2- The ^{used in}~~reason~~ the government ~~used~~ paper money was, ~~among~~
the fact that ~~after~~ the certificates ^{when} ~~was~~ issued, ^{were} ~~it was~~ re-
ceived by the people very favorably and circulated extensive-
ly, ^{being presented for redemption}~~very few notes were brought in to be converted~~. Moreover,
as notes of the smaller denominations ~~were~~ circulated among
the mountaineers and fishermen, the wear and tear was great
and there ^{it seems impossible}~~was the seeming impossibility~~ that the amount which

19 (1) See p. 42, above

20 (2) " p. 45, above

was originally intended for circulation would last ten years. Even if ^{in any event} this were not so, ^{as} when the island ^{was} should be gradually opened and the wilderness become a taxable ^{area} land, the authorities ^{as they see} considered that it would not be difficult ^{to} to convert ^{the} the notes with the coin which would be paid in by ^{as} the taxes ^{is} from the Island. Hence holding the sum of 1,800,000 yen, which was lent to the people of Hokkaido, as a reserve, the government issued additional notes to the amount of 1,100,000 yen.

~~3.~~ In the year 1871, when the country was redivided, the public expense ^{ature} became very great, and the government suffered from financial embarrassment. Whenever it met with a ^{deficit occurred} deficiency incurred by its expenditures exceeding the revenue ^{a measure such as many governments in Europe and America had, namely, the Bureau of Ways and Means would borrow temporarily from the Bureau of Currency to meet the deficiency, with the intention of repaying the amount when taxes were received.}

- Now this seems very similar to the Treasury Certificate system. But ~~after a few moments consideration, we see that there is a great difference between the two systems.~~
In the first case, there was a definite term within which

the debt would be paid, usually, not longer than a fiscal year. ^{unexpressed} The system which was adopted by the Japanese government ~~at that time, was that~~ ^{monitored} there was no definite term for liquidation. In short, ~~the~~ ^{monitored} Minister of State for Finance ~~became~~ ^{became} debtor ~~to~~ ^{to} the Bureau for currency, and ~~a~~ ^a creditor ~~to~~ ^{to} the Bureau for Revenue; the ~~duty~~ ^{interest} of debtor and the right of creditor rested upon one person, and there was no ~~special~~ ^{special} ~~liability~~ ^{liability} to pay at all. This ~~kind~~ ^{more} of transaction was resorted to nine times during ~~five months~~ ^{five months} ~~from~~ ^{from} Oct. 1872 ~~to~~ ^{to} Feb. 1873, and the amount thus borrowed was 8,000,000 yen. In 1874, this debt was ~~turned~~ ^{converted} into the "new paper notes".

~~At~~ ^{At} the beginning of the new era of the Meiji, the government ~~initiated~~ ^{adopted} the policy of interference in Commerce and Industry. It went so far in this direction, that ~~the criticism was made,~~ ^{as was said} that the government monopolized all the industries of the country. This ~~measure~~ ^{policy} cost the government 500,000 yen which necessitated another issue of paper money.

~~In~~ ^{In} 1877, when the country entered upon its prosperous career, the ~~growth~~ ^{development} of the National life was suddenly checked by a ~~storm~~ of civil war, which left the country in a desperate condition. To meet the enormous expenditure

incident to the war, the government having no other source from which it could draw, ~~was compelled to circulate~~ paper notes to the value of 27,000,000 yen from the reserve currency which was to be used for exchanging "worn-out paper notes". It ~~was, therefore, decreed~~ ^{it was decreed} in the same year, that this reserve currency should ~~be~~ circulated for fifteen years, and ~~exchanged~~ ^{be exchanged} at the end of that period for ~~bonds in exchange for notes~~.

The Kai-Ryo-Shi-He (Improved Paper Money). The new paper money which was ~~said~~ ^{claimed} to be perfect in manufacture was found, a few years after it was circulated, to be imperfect in ~~the~~ ^{particular} three following points: 1.

(1) As the notes of all denominations were of the same size, differing only in the figure which indicated the denomination, it was very difficult to distinguish one denomination from the other.

(2) Owing to the ~~uniformity~~ ^{character} of the paper, the color used in the lithographic print was not absorbed sufficiently to prevent it from being changed very easily.

(3) Owing to the poor texture of the paper, the notes were easily torn and were soon worn out. Hence it is reported, that 100,000 yen worth of notes were brought

to be exchanged in one month.

For these reasons, the government ordered the Financial Department to issue another note known as the "Improved Paper Money" which should remedy these defective qualities in the "New Paper Money".

-:- CHAPTER IV. -:-

-:- REDEMPTION OF PAPER ^{Currency} MONEY. -:-

Although all the ~~money~~ ^{notes and coins} mentioned in the preceding chapters ~~is classed~~ ^{are included} under the name of "Government Notes", yet in regard to their characteristics and their objects, the various issues may be divided into the two following classes;

A. Those issued for meeting a temporary deficit that existed because of the excess of expenditures over the revenues of the government; ~~but which would not be added to the permanent debt of the government.~~ ^{but requiring no additional}

B. Those issued for defraying the government expenditure and destined to become a permanent debt of the government.

~~Class A.~~ It is not unusual in financial administration ^{for} the expenditure and revenue ~~to be unequal~~ ^{to be unequal}; sometimes the former is greater than the latter; while at other times, the reverse is the case. ^{Moreover} ~~At times, when the outlay is de-~~ ^{needed} ~~manded before the revenue comes into possession of the government.~~ ^{at times} "Temporary deficits and surpluses cannot be avoided. In the management of a large financial organization

complete equalization of receipts and expenditure could hardly
 ly even be obtained, or, if it were, would be due to chance."¹
~~is essential for~~ ^{usually}
 Hence ~~the different~~ governments throughout the civilized
~~world provided~~ ^{method of borrowing} some form of reserve, which may be ^{utilized}
~~at the time~~ ^{in case} of temporary ^{inequality of expenditure} loss of equalization between expen-
 diture and revenue, ~~either in the form of a temporary loan, or~~
~~by means of a central bank.~~ The Japanese government having
 no central banks has adopted the system of "reserve paper notes,"
 considering that "this method is better than issuing a loan,
 for by it, the government is free from paying interest and
 free also from the trouble of collecting the loans." But
 in 1877 and the four years following, ^{a succession of events} ~~many grievous events~~
~~took place which necessitated a large amount of extraordi-~~
~~ary expenditure and the government was forced to~~ ^{issue an}
~~great use of these reserved notes.~~ ^{excessive quantity of notes} Consequently, at the
 end of 1881, the depreciation of the paper notes was so
 great that the government was compelled to ^{undertake their} ~~undertake the~~
~~reform~~ ^{reform} of the so-called "Reserve Paper Notes". (2)

(1) C. F. Bastable's Public Finance p. 335.

(2) Report of the Minister of Finance, p. 73.

This important work was left to the Minister of
Count Matsukata. Soon after entering upon his office, the
Court found that the "reserve notes" in circulation amounted
to 10,460,000 ^{3 ✓}yen(2) and began to work for the management
~~of the notes.~~ He took ~~decisive~~ measures for the ^{redemption} ~~abolish-~~
~~ment~~ of the "reserve notes" and made changes in order to accom-
plish ^{his plan} ~~carried out the following reforms:~~
1-- In the ^{first} ~~place~~ of ^{remodelled} ~~the~~ Reserve, he ~~reformed~~ the method of
receiving revenue and of defraying expenditure. Hitherto
it was the custom to keep in the treasury of the local au-
thorities (the taxes paid by the people) and for some months
^{before transmitting to the central government} ~~it was not transmitted to the central government.~~ On the
other hand, financial regulations required the Financial
Department to pay in advance one-twelfth of the appropria-
tion ^{for} ~~for~~ the different departments of the central government,
and one-fourth of that ^{for} ~~for~~ the provincial government. ^{4 ✓} Thus
some reserve was rendered necessary.

Count Matsukata introduced ^{the system} ~~a changed~~ this method
^{so that} ~~by which~~ the surplus of one province could be used to cancel

3 (1) Count Matsukata's Report of 1900, p. 75.
4 (2) Ministers Report p.10.

the deficit of another. ~~To do this.~~ ^{He} ordered all the local governments to report to the Financial Department every other day by telegraph, the amount of money in their local treasuries. Thus, he was enabled to ~~circulate~~ ^{use} all the surplus existing in ~~some~~ ^{one part} portion of the Empire ~~for~~ ^{to balance a} the deficit ~~in another.~~ ^{of others,} and this made the circulation much more elastic.

2-- Count Matsukata endeavored ^{also} to ~~use~~ ^{replace the "reserve} specie instead of ~~reserve~~ ^{notes with specie.} notes. The larger part of the reserve was in the

form of loans and government bonds and ~~there was only~~ ^{The sum of} 4,000,000, yen ^{was held} in specie to effect the conversion of the bills.

Hence, he resolved upon ^a another measure to augment the amount of specie. To accomplish this, he sold the bonds and arranged ^{for} the payment of all loans ^{so that the reserve con-} ~~thus turning them into~~ ^{distended entirely of} obligations in specie. And ^{should have a} when the government had a deficit, the ~~reserve coin~~ ^{to be} was ~~used~~ ^{old} instead of the ~~paper re-~~ ^{notes.} serve.

3-- The third measure ^{was to} ~~was to use~~ the specie ^{in building} held for the Middle Provincial Rail Road ^{to} ~~for~~ the temporary needs of the government. ^{it was determined} In 1883, ~~the project was~~ ^{it was determined} to lay a rail road joining the two capitals, Tokyo and Kyoto, through



the Middle Provinces. Bonds ^{offered} were ~~issued~~ for sale in the ^{Thus brought into} ~~the~~ year and at once a large amount of specie was added to

the central treasury. ^{This was} ~~Now~~, the government was able to use ^{The} ~~them~~ for tiding over temporary emergency until the project ^{carrying out of} demanded the money.)

Thus, ^y through these ^{measures} ~~various~~ methods, all the notes of Class A, were converted into specie in 1883. (1)

Class B. For the ~~various~~ reasons ~~which were~~ mentioned in the preceding chapters, the amount of inconvertible notes, (in new paper money, ^{following} reached in 1878, the enormous figures:- given below:-

Amount	
Amount issued for the conversion of old government notes and bills-----	31,367,000 yen
Amount issued for the conversion of class notes-----	22,803,000 "
Amount issued for meeting general deficiency-----	3,525,000 "
Amount used for the expenses of the Insurrection-----	27,000,000 "
Total	119,200,000 ²⁴⁶

We shall now consider how the government managed this enormous amount of inconvertible notes. In 1873 when

- (1) Count Matsukata's Report of 1880, p. 58.
- (2) See Compendium of the Japanese Finance, Vol. II, p. 240.

~~it was~~
~~the government~~ decreed that the old notes should be exchanged
for the new coins and that if all were not so exchanged, six
per cent. interest should be paid on those continuing in cir-
culation, the government ^{attempted the fulfillment of} ~~undertook~~ to fulfil these promises
and took several measures for the redemption of the paper
notes. (1)

The first of these was ^{the} ~~to~~ issue of the "Bond in ex-
change for Paper Money", and the second, ^{the} ~~to~~ establish ^{mark} a na-
tional bank ^{with} ~~giving it~~ the right to issue convertible certifi-
cates. Thus, in 1873, ~~the National Bank Regulation, and~~
~~the "Bond in Exchange for Paper Notes" Regulation were decreed.~~
According to these Regulations, ~~a~~ National Bank ~~were~~ ^{each of} estab-
lished, which should have a capital of at least 50,000 yen.
Six-tenths of ~~the~~ ^{was to} capital ~~should~~ be deposited in paper money
at the Financial Department and ^{the remaining} ~~four-tenths of which should~~
^{be held} ~~be deposited~~ in specie as a reserve for the redemption of ^{the bank}
~~its notes.~~ ^{notes} Then, the Financial Department issued "Bonds in
Exchange for the Notes" bearing interest at the rate of six
per cent. per annum payable in gold, which the bank ^{was required} ~~must~~
to retain as security ^{for the note issue} ~~in issuing the bank notes.~~ The amount

(1) Cf. p. 30.

of the Notes ^{could not exceed} ~~should be equal to the security possessed by~~
the bank. Concerning the advantages of issuing the Bonds
in exchange for Paper Notes," Count Okuma says, "This plan
has two advantages; in the first place, when the rate of in-
terest falls below six per cent. in gold, owing to an excess
of paper money in circulation, the holder will be at liberty
to exchange them for public bonds, while the Government would
be enabled to withdraw enough paper money to maintain the cir-
culation at an amount suitable to the requirements of the
country; and in the second place when the paper currency falls
below par, the holder will be able to obtain Bonds, the in-
terest of which will be payable in specie." (N)

These were really the first steps taken by the gov-
ernment towards the redemption of the paper currency, but
~~owing to the~~ ^{pressing necessity for the} conversion of "clan-notes" ~~was~~
~~of such pressing need~~ ^{compelled} and owing to the out-break of the Kiu-
shu Insurrection, ^{the} the government was compelled to issue ad-
ditional notes to ~~an~~ ^{the} amount of something over 31,000,000 yen
and thus to abandon the ~~attempted~~ plans for redemption. And

(1) Okuma's Review, p. 14.

During the period of five years ^{from} 1874 ^{to} 1879 the government notes in circulation ^{increased to} reached a considerable amount. ^{in the early part of the period,} At first, as there was ^{only} but a limited demand ^{issue of} for the notes, they were circulated at par with specie (1) and there was no danger of depreciation. ^{lower} (But ^{owing} to the inconvertible character of the notes and to their over issue ^{after} since 1877, they ^{later} began to fall in value. For a ^{time} while the result ^{disturbed} was ~~was~~ ~~alarming to~~ the internal as well as the foreign trade.

The first effect of the depreciation was the excess of imports over exports, and the second was the out flow of the monetary metals; ^{these results} Both of ~~which~~ ⁱⁿ are shown by the following tables; ^{10 ✓} (X)

(1) Of course, silver being the only money ^{used} in ^{Japan's} foreign trade, there ^{were} ~~was~~ ^{fluctuations in the value of} a difference in exchange value between silver and paper according to ^{the relation} ~~the~~ ^{to} of imports and exports. ~~which could not be avoided.~~

(2) Count Matsuka's Report of 1890, p. 93.

TABLE I. EXPORTS AND IMPORTS OF COMMODITIES.

Year.	Imports	Exports	Excess of Imports	Excess of Exports
1872	26,174,000 yen,	17,026,000 yen,	9,148,000 yen,	-----
1873	28,107,000 "	21,635,000 "	6,471,000 "	-----
1874	23,461,000 "	19,317,000 "	4,144,000 "	-----
1875	29,975,000 "	18,611,000 "	11,364,000 "	-----
1876	23,964,000 "	27,711,000 "	-----	3,746,000
1877	27,420,000 "	23,348,000 "	4,072,000	-----

11 (1) ~~The reason why the year 1876 had such a large excess of exports was~~ *due to* the failure of the silk crop in the European countries, and ~~hence~~ *the consequent increased* greater exports of silk from Japan.

TABLE II. IMPORTS AND EXPORTS OF PRECIOUS METAL.

Year	Import	Export	Excess of Imports	Excess of Exports
1872	3,691,000 yen,	4,480,000 yen	-----	789,000
1873	3,080,000 "	5,122,000 "	-----	2,042,000
1874	1,071,000 "	13,995,000 "	-----	12,923,000
1875	298,000 "	14,663,000 "	-----	14,365,000
1876	8,267,000 "	10,675,000 "	-----	2,408,000
1877	2,173,000 "	9,441,000 "	-----	7,267,000

Notwithstanding these clear evidences of the effects
which we have ascribed to the over issue of the paper notes,
most of the financiers of the time attributed ~~the cause of~~
this alarming inequality between imports and exports to the
scarcity of capital and ^{a remedy in the} sought to issue more bank notes.
^{With this end in view} ~~Thus, we see the revision of the~~ Bank Regulation by which it
~~was proposed to issue more inconvertible bank notes for cir-~~
~~culation.~~ ^{were issued.} The government ^{required} ~~had requested~~ the banks to deposit
in the Financial Department the Government Bonds bearing four
per cent. interest, ^{to the} ~~which amounted~~ ^{of} to eight-tenths of ^{it} ~~the~~ cap-
ital leaving only two-tenths of the capital in specie. H
Upon the basis of ^{this} specie the bank was allowed to issue
notes ^{to the} ~~of the same amount~~ ^{of} the deposited bonds. This
measure shows that the government had at that time abandoned
entirely its first idea of redeeming the inconvertible notes,
by allowing the exchange of bank notes for government notes,
which were themselves inconvertible. Thus, during three
or four years, there was added to the amount of the inconvert-
ible paper money already in existence, over, 100,000,000 ¹² ~~yen~~

12 (1) See the Compendium of the Japanese Finances.

^{an} ~~There was another~~ ^{factor in} ~~incidental cause for~~ the adoption
 of this measure ^{was} ~~the~~ ^{at this time} ~~commutation~~ of the hereditary pension
 of the military classes into "Public Debt Bonds." "This
 class beyond the functions which had appertained to it under
 the régime that had passed away, was ignorant of the ordin-
 ary means of gaining a livelihood and now being suddenly re-
 lieved from those functions was in great danger of falling
 into a state of indigence and perhaps into pauperism, unless
 some calling could be found for its members. The govern-
 ment consequently sought a means by which the military class
 could turn their "Public Debt Bonds" to account in obtaining
 a livelihood". (1) ¹³ These circumstances ^{The demand for more} ~~scarcity of~~ capital.
^{relief} ~~in the country and the aid~~ of the military class ^{led} ~~necessitated~~
 the government to revise the Bank Regulations and to issue
 the additional inconvertible notes.

The results of this measure were felt in the finances
 of the country soon after the revision took place in 1879. ^{There}
^{ensued} ~~ensued~~ further depreciation of the paper money, an excess of
 imports over the exports, ^{an} ~~the~~ outflow of silver and gold, and
^a ~~the~~ rise of general prices. ^{These phenomena are in} ~~which can be shown by~~ the follow-
 ing tables:--

TABLE I.--~~THE~~ AMOUNT OF ~~THE~~ PAPER NOTES IN CIRCULATION.

Years.	Class A.	Class B.	Bank Notes.	Total.
	yen	yen	yen	
1877	11,961,000	93,835,000	13,352,000	119,149,000 yen.
1878	19,618,000	119,800,000	26,279,000	155,697,000 "
1879	16,118,000	114,190,000	34,043,000	154,354,000 "
1880	16,528,000	108,412,000	34,426,000	159,366,000 "
1881	13,000,000	105,905,000	34,396,000	153,302,000 "

TABLE II.--Depreciation of the paper notes in comparison with silver. (prior to September, 1879, in the Mexican dollar coin and thereafter in Japanese yen coin).

Years.	Jan.	Feb.	Mar.	Apr.	May.	June.	July.	Aug.
	yen	yen	yen	yen	yen	yen	yen	yen
1877	1,013	1,037	1,026	1,034	1,015	1,024	1,034	1,052
1878	1,049	1,075	1,105	1,076	1,066	1,068	1,068	1,078
1879	1,217	1,246	1,261	1,247	1,161	1,102	1,121	1,172
1880	1,365	1,389	1,435	1,549	1,373	1,367	1,378	1,387
1881	1,728	1,746	1,774	1,795	1,620	1,625	1,628	1,629

Years.	Sept.	Oct.	Nov.	Dec.	Average.
	yen	yen	yen	yen	yen
1877	1,053	1,043	1,037	1,030	1,033
1878	1,110	1,143	1,131	1,217	1,099
1879	1,158	1,233	1,286	1,336	1,212
1880	1,489	1,651	1,686	1,659	1,477
1881	1,690	1,734	1,692	1,695	1,696

TABLE III.--~~The excess of Imports.~~ Imports and Exports

Years.	Imports.	Exports.	Excess of Imports.
	yen	yen	yen
1877	27,420,000	23,348,000	4,072,000
1878	32,874,000	25,988,000	6,886,000
1879	32,953,000	28,175,000	4,777,000
1880	36,626,000	28,395,000	8,231,000
1881	31,191,000	31,058,000	132,000

TABLE IV.--Exports and Imports of the Precious Metals.

Years.	Imports	Exports	Excess of Exports
1877	2,173,000	9,441,000	7,267,000
1878	2,189,000	8,328,000	6,139,000
1879	3,134,000	12,778,000	9,644,000
1880	3,638,000	13,222,000	9,584,000
1881	1,858,000	7,490,000	5,634,000

¹⁴
Price of Rice

TABLE V. --~~The Fluctuation in the Price of Rice.~~ (1)

Years.	Maximum.	Minimum.	Average.
	yen	yen	yen
1877	5,57	4,63	5,15
1878	7,03	5,37	6,20
1879	9,37	7,05	8,21
1880	12,11	8,15	10,13
1881	11,53	9,44	10,48

¹⁴ (1) The price of rice is selected because of its universal use throughout the country; the price given is that per koku in the Tokyo Market.

As shown by the above tables, Depreciation of the paper money caused by the over issue began in 1877. At the beginning of the year 1874, Silver money brought 7 or 8 sen premium, and at the end of that year, the paper depreciated and the difference between paper and Silver was 20 sen. This phenomenon called the attention of the financiers to the importance and necessity of the ~~management of the currency~~ ^{currency to perform some action.}. But ^{however,} they failed ^{to} see the real cause of the ~~phenomenon~~ ^{premium}. They thought that the depreciation of the paper ~~was~~ due to the appreciation of silver; that the appreciation of the metal ^{ceased by} ~~was due to~~ the unfavorable balance in the foreign trade ^{this in turn,} and that ~~the last phenomenon~~ ^{owing to} was the effect of scarcity of capital which hindered industrial enterprises. Hence the ~~subsequent~~ ^{was not intended} measures adopted by the ~~government~~ ^{go} ~~was not~~ to contract the inconvertible notes but rather to prevent the appreciation of silver money.

In 1879 the premium on silver went up as high as 85 per cent. In order to stop the appreciation of Silver, the government authorized two banks at Tokyo, Mitsu and Second National Banks, to sell ~~the~~ ^{to the} silver amounting to ~~of~~ ^{15 -} 2,400,000 yen ~~which had been deposited~~ ^{from} in the Reserve Fund. ¹¹

By ^{caused} this measure silver ~~began~~ ^{slightly} to depreciate a little: it had been at 16 sen premium but now fell to 12 sen. When the sale ~~was~~ stopped silver went up again to 23 sen, then ^{to} 36 sen, ^{In that year,} and in 1860 it rose as high as 54 sen premium. ~~Not~~

Government ordered three banks (First, Second and Mitsui) to sell ~~out~~ silver to the amount of about 6,000,000 yen.

~~Through this,~~ ^{as a result} silver, fell down to 37 sen premium, but in the autumn of the same year it went up to 45 sen. Having thus failed in all ~~their~~ ^{its} attempts to prevent the appreciation of silver, the government abandoned the ~~idea~~ ^{plan} of selling ~~out~~ silver and determined to ^{accomplish its purpose} ~~prevent the same and~~ by the more ^{method} direct ^{the} way of contracting ~~a~~ paper currency.

^{looking to this end immediately} Two measures were straightway adopted:

- 1--^{an} increase ⁱⁿ the tax on liquor.
- 2--^{a reduction} the outlay of the government.

(By the first measure, the Financial Department was able to add 6,000,000 yen and by the second, 3,500,000 yen to the reserve which was intended ~~to be used~~ for the redemption of the paper currency.

But the appreciation of silver did not stop and in 1861 silver was at 79 sen premium, ~~which was the~~ maximum limit of the appreciation. The effect of ^{the premium} ~~this~~ phenomenon

upon industry and commerce was alarming. The revenue of the government decreased to one half its nominal value; *many of* those whose livelihood depended upon salaries and pensions *were reduced to want.* failed to make a living. The rate of interest rose ~~consequently~~ and ~~all~~ the government bonds fell in value. ~~Every~~ *all* commodities ^{and} rose in price, ^{the} the effect of high price of rice was especially severe upon the common people, as it is the chief product, and the staple food of the Japanese people. The farmers alone are supposed to have been benefited by *speculation failed* the change. " In the year 1861, says Hon. T. R. Jennigan, the U. S. Consul at Osaka, "nearly every thing in Japan had greatly risen in price and as the great majority of the people considered only price and not value, and ignored the wholly fictitious nature of the advance, it is not surprising that they imagined it both solid and likely to endure, and thought themselves very prosperous and quite justified in ~~laying~~ launching into much extravagant expenditure. Accordingly new farm houses sprang up in every province; new clothes and ornaments were freely purchased, landed property came in great demand ~~and~~ and in general everybody rejoiced in hope and a sense of prosperity." (1) But this ~~was~~ *was*



prosperity of the country was ^{in direct} ~~merely~~ an indication of the greater commercial evil hidden in the confusion of which when the time for its appearance was ripe, threatened to bring about widespread ruin.

Before long, the government awoke to the danger of the fear which excited the people and ^{renewed its efforts} ~~determined to contract~~ ^{diminished} the ~~paper~~ ^{note} circulation. This important matter was left to the Ministry of Count Matsukata.

In Oct. 1891, Count Matsukata was appointed ~~Minis-~~ Minister of State for Finance and immediately undertook to contract the currency. The first step he took was to ^{segregate} ~~provide~~

as large a specie ^{reserve} ~~revenue~~ as ^{possible.} ~~the government was able to fur-~~ nish. ^{with} ~~Having~~ this in view, Count Matsukata ^{ascertained} ~~investigated~~ how much specie the government ^{could devote to the purpose.} ~~had, for the purpose.~~ In his

Report on the result of this investigation, he says, "We have an average annual surplus of revenue amounting to 7,000,000 yen, and a reserve already made, amounting to 36,438,000 yen--making a total 43,438,000 yen which we can use for the management of the paper currency." "If" he continues, "we manage our annual income and reserve properly before many years pass, we can accomplish the redemption of

17 ✓

all inconvertible notes." (A) From this time on, the government ^{on the one hand} ~~persisted in converting~~ ^{ad} the paper notes ~~on one hand~~ and ^{increased} ~~on the other, it increased~~ the reserve, with the intention ^{ultimately changing inconvertible} of turning ^{all} the paper notes into convertible certificates. To accomplish this ~~double~~ aim, the government ^{and} ~~through~~ ^{advice} the proposal of Count Matsukata, on Oct. 10, 1892, established the "Central Bank of Japan."

~~As to~~ ^{The} object of the establishment of the Bank of Japan, ^{is described in the} ~~we refer to the~~ ^{report of} Count Matsukata. He says, "The existing banks (260 in number, including all branch offices) scattered over the country have no business connection with each other; and the feudal barrier still separates one bank from another. Consequently, specie to the value of 50,000 yen ^{can} ~~could~~ not be utilized, and thus there ^{was} ~~was~~ no way for extending the credit of the banks. Hence although the amount of bank notes issued reached the enormous of over 30,000,000 yen, yet the country had ~~been~~ feeling the

17 (1) Count Matsukata's Report of 1890, p. 103.

insufficiency of the medium of exchange.

"If this were the age of Feudalism such an institution might have been of some service to society. But fortunately, that age has passed and gone. By this time the central government ^{has been} ~~was~~ formed and all the provincial governments have been established, bearing a definite relation to the central government. But so to say the banking system which is the most important factor of the financial welfare of the country is ^{now in accord with} ~~therefore opposed to the glorious aim of~~ the centralization of the government.

"Accordingly, in order to save the country from an unbalanced situation in its political and financial system, there is left but one measure, that is, the establishment of the "Central Bank of Japan". The circulation of the currency is like the circulation of blood and what keeps up the circulation is the heart. The central bank is the heart of the currency circulation of a country, without which, the finances of the country cannot be successfully administered. 18/41

This memoir ^{was} ~~is~~ accepted unaniously by the members

18 (1) Count Mutsukata's Memorial, dated March 1, 1899.

of the cabinet and the "Regulation of the Bank of Japan" was proclaimed ~~in~~ June 27, 1898. *The "Regulation"* may be summed up as follows:--

1-- The object of the Bank shall be,

(a) To make the flow of currency in circulation easy and undisturbed.

(b) To render service to the government as a financial agent in inter-national trade.

(c) To aid the government in its ordinary financial operations.

(d) To monopolize the power of issuing certificates.

2-- Its term of business shall be thirty years.

3-- The capital of the Bank shall be 10,000,000 yen.

4-- One-fifth of the ^{authorized} capital shall be ^{paid in} collected before the Bank is opened and the remainder of ^{the} ~~the~~ capital ^{may} ~~shall~~ be deposited at the convenience of the stock holders.

5-- The ~~right of the~~ ^{Bank} business of the Bank shall not be restricted, unless it contemplates unjust and disastrous speculation, ⁱⁿ ^{case} ^{measures} ^{shall be taken} which is strictly prohibited.

6-- At the government's fiat, the Bank may be

entrusted with the management of the ^{financial affairs} ~~affairs of~~ ^{ways} ~~ways~~
and means of the Government.

^{The Bank}
7-- It ^{is} ~~shall~~ have the right of issuing convertible certificates but at present it shall not exercise ^{its} ~~this~~ right. (1)

8-- The President of the Bank shall be a person of the First Rank and the Vice-President, ^{one} ~~of~~ of the Second Rank.

9-- The Minister of Finance shall appoint an ^{official} ~~inspec-~~ ^{who shall inspect the} ~~tor of the~~ business of the bank.

10-- The President ^{shall} ~~shall~~ present to the Minister of Finance ^{condition of the} ~~a~~ monthly report of the Bank.

11-- The government shall invest capital amounting to one-half of the whole capital of the Bank ^{in the stock} ~~and become~~ ^{Bank.} ~~stock holder of the same.~~

Meanwhile, the Government endeavored to increase the central specie reserve through ^{the introduction of} ~~economy and~~ ^{business} ~~business~~ methods, until, in 1905, it must have reached 2,000,000 yen.

(1) The ^{on account of} ~~reason~~ ^{the} ~~clause~~ ^{was added is that it was at a} ~~time of~~ ^{great depreciation of the paper currency.}

In May of the same year 61 the act proposed by Count Matsukata, the "Bank of Japan" was ^{authorized} ~~ordered~~ to issue certificates amounting to 2,500,000 yen.

Thus the double policy was continued -- increasing specie on the one hand and issuing certificates in exchange for government notes on the other. Finally in June, of 1885, the government issued the following proclamation:--

"The government paper notes (inconvertible) shall gradually be ^{be changed for} ~~converted into~~ silver coin, beginning in June 1890 and those ^{cancelled} ~~redeemed~~ shall be destroyed.)

^{method} ~~The rule of the conversion~~ shall be ^{noting the exchange} ~~regulated by~~ ^{under the control} ~~fixed~~ by the Minister of Finance and the management thereof shall be ^{entrusted to} ~~under the direction of~~ the "Bank of Japan."

^{Conversion} ~~The operation~~ began ^{on} ~~from~~ the date fixed by the above decree, and owing to the general tranquillity during the four years following, ^{combined} ~~together~~ with the industrial development and commercial prosperity of the realm, ^{the} ~~this~~ measure was carried to a ~~very~~ ^{successful} termination. Finally in 1890 the amount of the ^{specie} ~~silver~~ and ^{held} ~~certificates~~ against the inconvertible notes ^{in 1890 is shown in} ~~can be seen from~~ the following table:--

Credit.		Debit.	
Certificates--	77,615,000 yen.	Government Notes--	40,000,000 yen.
Specie --	4,970,000 "	Bank & National	26,321,000 "
Bonds--	22,679,000 "		
Total	105,230,000 "	Total	66,450,000 "

The next step ^{taken by} the government had to take ⁱⁿ toward the redemption of the inconvertible notes was the ^{reform} ~~management~~ of the bank notes ^{circulation}.

~~The origin of the notes.~~ The first bank notes were issued in accordance with the Bank Regulation of 1873 and they were convertible certificates. ²⁰⁶ ~~in their nature.~~ (1) But in 1875 and 1876 when the balance of foreign trade was unfavorable ^{to} Japan and consequently, the outflow of specie was greatly enhanced, ~~the~~ gold appreciated and there were ~~too~~ many demands for the conversion of the paper. It became ~~very~~ evident that if ^{the banks} ~~they~~ continued to ^{redeem} ~~convert~~ the notes as originally ^{planned} ~~planned~~, not only ^{such a course} ~~it~~ would be destructive to the banks but ^{facilitate} ~~also~~ it would ~~also~~ ^{facilitate} the outflow of specie. ~~from the country.~~ Therefore, four banks of Tokyo, a merged

to the government to ^{modify} ~~cancel~~ ^{law} the regulation.

(Although the authorities ^{was aware that} saw what evil effects would ^{follow} come out of over-issuing ^{on account of} ~~inconvertible~~ bank notes, yet ^{from an} owing to the ^{of} ~~existence~~ ^{to} the ^{heavy} ~~fact~~ the need for funds to meet the government expenditures ^{caused largely by} and the commutation of the hereditary pension of the military class into ^{a public charge.} ~~Public Department~~ ^{It seemed necessary to} grant the banks the power of issuing inconvertible notes. ^{2/11})

For these reasons, a revision of the Regulation was ^{made in} issued--1876 and the ⁱⁿ Bank Notes instead of being converted into specie, were redeemed ^{with inconvertible} by government notes, ^{thus} ~~there~~ ^{losing} ~~inconvertible~~. Thus, ^{the} ~~the~~ ^{distinctive} ~~real~~ quality of the bank note was ^{lost} ~~lost~~, ^{then} ~~for it should be~~ ^{passed as a certificate} while by this revision, the Bank note became irredeemable notes.

In 1883, therefore, the government began to consider (after the establishment of the Bank of Japan), the ^{reform in} management of the ^{circulation} bank notes. ^{method} Their ^{was} ~~was~~ recommended for ^{to} ~~the~~ ^{enterprise of the government} ~~for~~ ^{for} ~~accounting~~ its purpose: ^{It was suggested that} ^{he made a} 1- To ~~change~~ ^{make} all the bank notes to be liability of the Bank of Japan. As to ~~the~~ ^{said} ~~method~~ ^{method}, Count Matsukata ~~was~~ ^{first}

(1) See p. 80.

of the Bank of Japan had today enough financial strength to be able to issue convertible notes, such a method might indeed be adopted. But unfortunately such is not yet the case.

~~Therefore it is not a measure to take." (X)~~

2-- Another method ^{then considered} ^{to} let the banks continue as before ^{during} the term ^{periods prescribed} in the Regulation, and at the end of it ^{the first} ^{require} ^{to} ^{them} ⁱⁿ ^{man} let all the banks ^{to} ^{assume} all the liability.

But ^{also} to this Count Matsukata objected on the ground that if, at the end of the term of 20 years, ^{the term} ~~which was assigned to~~ the national bank for its business, all of 140 banks sold out ^{at once} all the bonds ^{which} were kept as reserve about 28 million yen, it ~~would create~~ ^{will be produced} a disastrous effect on the economic affairs of the country.

3-- ^{Count Matsukata proposed} Therefore, the plan ~~which was proposed by Count Matsukata himself~~ was that all the ^{revenue} of the National Banks should be transferred to the Bank of Japan and that ^{each} the National Bank should deposit out of ^{its} ^{an amount of} the annual profit ^{two} and one half per cent. of the Bank notes ^{amount of its} ⁱⁿ ^{ion} ^{should} ^{annual payments} ^{to} the Bank of Japan ^{should}

22 (1) Count Matsukata's Report of 1920, p. 140.

liquidation of debts." (N)

But necessity was pressing many to exertion and with an enforced return to frugality and diligence, production and trade were happily revived and prosperity finally re-
tained. At the end of the annual report of 1890, Chief Minister, happily states that "If we look back upon the finan-
cial condition of the country at the time when the govern-
ment notes fell in value to their lowest point and see the
consequent evil effects upon industry and commerce, we are
conscious of the sense of fear and anxiety felt at that time.
But what glory to the country and what blessing to the peo-
ple! Through the wise management and ardent zeal of the
Cabinet, step after step, year after year, the measure ad-
vanced and now all the provisions for the redemption of the
notes are completed."

- 23 (1) The U. S. Consular Report, Vol. XIX, No. 29, p. 684.
~~(2) Count Matsukata's Report of 1900~~

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-:- BIOGRAPHICAL SKETCH. -:-

The author, Masayoshi Takaki, was born in Tsuruoka, Yumagata Ken, Japan, December 10, 1867. In 1880, with his parents he moved to Yokohama. He was trained at the Chido-Kwan in Tsuruoka and afterwards at the Tsuruoka Academy. Later he entered the Anglo-Japanese College, Tokyo, Japan, from which he was graduated in 1885. After graduation he was elected instructor and interpreter in the Tokyo Anglo-Japanese College. In which capacity he served until he came to America in the fall of 1887. He entered Syracuse University, in the fall of 1887, and was graduated in 1891 with high honor, receiving the degree of Bachelor of Science. He spent the year 1891-92 at the Albany Business College. In the fall of 1892, he entered the Johns Hopkins University as a candidate for the degree of Doctor of Philosophy, selecting Economics as his major topic, with History and Social Science for his first and second subordinate topics.



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